

MONTANA LEGISLATIVE HISTORY

Chapter 581 19 95

Bill H _____ S 338

Original bill & history X c

H. Committee on TAXATION

Hearing Date(s) 3/31 X c

EXEC ACTION 4/6 X c

_____ c

_____ c

Date Out _____ c

S. Committee on TAXATION

Hearing Date(s) 3/2 X c

EXEC. ACTION } 3/13 X c

5/14 X c

_____ c

Did this bill originate in an interim committee? ____ Yes ____ No

Committee _____

Report _____

A Conference Committee was appointed -
we have no minutes from this
committee, only its report.

SB 336	1995 HISTORY AND FINAL STATUS	154	
	3/25 2ND READING CONCUR AS AMENDED MOTION FAILED	45	52
SB 336	INTRODUCED BY BECK, ET AL. SET LEASE AND USE FEE RATES ON STATE SCHOOL TRUST LANDS BY STATUTE, RATHER THAN BY RULE OF THE BOARD OF LAND COMMISSIONERS		
	2/08 INTRODUCED		
	2/08 FIRST READING		
	2/08 REFERRED TO TAXATION		
	2/09 FISCAL NOTE REQUESTED		
	2/13 FISCAL NOTE RECEIVED		
	2/13 FISCAL NOTE PRINTED		
	3/01 HEARING		
	3/13 COMMITTEE REPORT—BILL PASSED		
	3/18 2ND READING PASSED	27	19
	3/20 3RD READING PASSED	26	24
	TRANSMITTED TO HOUSE		
	3/21 FIRST READING		
	3/21 REFERRED TO TAXATION		
	3/30 HEARING		
	4/04 Tabled IN COMMITTEE DIED IN COMMITTEE		
SB 337	INTRODUCED BY SPRAGUE REVISE THE DEFINITION OF "BUILDING" AND CLARIFY LEGISLATIVE CONSENT TO BUILDING COSTS BY REQUEST OF THE DEPARTMENT OF ADMINISTRATION		
	2/09 INTRODUCED		
	2/09 FIRST READING		
	2/09 REFERRED TO STATE ADMINISTRATION		
	2/14 HEARING		
	2/16 COMMITTEE REPORT—BILL PASSED		
	2/17 2ND READING PASSED AS AMENDED	50	0
	2/18 3RD READING PASSED	48	2
	TRANSMITTED TO HOUSE		
	2/20 FIRST READING		
	2/20 REFERRED TO STATE ADMINISTRATION		
	3/03 HEARING		
	3/10 COMMITTEE REPORT—BILL CONCURRED		
	3/11 2ND READING CONCURRED	96	0
	3/14 3RD READING CONCURRED	100	0
	RETURNED TO SENATE		
	3/17 SIGNED BY PRESIDENT		
	3/18 SIGNED BY SPEAKER		
	3/20 TRANSMITTED TO GOVERNOR		
	3/24 SIGNED BY GOVERNOR CHAPTER NUMBER 241 EFFECTIVE DATE: 10/01/95		
SB 338	INTRODUCED BY JERGESON, ET AL. EXEMPT FROM STATE SEVERANCE TAX FOR 24 MONTHS OIL OR NATURAL GAS PRODUCED FROM A WELL DRILLED AFTER MARCH 31, 1995		
	2/09 INTRODUCED		
	2/09 FIRST READING		
	2/09 REFERRED TO TAXATION		
	2/10 FISCAL NOTE REQUESTED		

155	SENATE BILLS AND RESOLUTIONS	SB 339
	2/15 FISCAL NOTE RECEIVED	
	2/15 FISCAL NOTE PRINTED	
	3/02 HEARING	
	3/15 COMMITTEE REPORT—BILL PASSED AS AMENDED	
	3/21 REVISED FISCAL NOTE REQUESTED	
	3/22 2ND READING PASSED	46 3
	3/23 3RD READING PASSED	48 2
	TRANSMITTED TO HOUSE	
	3/24 FIRST READING	
	3/24 REFERRED TO TAXATION	
	3/25 REVISED FISCAL NOTE RECEIVED	
	3/25 REVISED FISCAL NOTE PRINTED	
	3/31 HEARING	
	4/06 COMMITTEE REPORT—BILL CONCURRED AS AMENDED	
	4/07 2ND READING CONCURRED	82 16
	4/08 REVISED FISCAL NOTE PRINTED	
	4/08 3RD READING CONCURRED	82 17
	RETURNED TO SENATE WITH AMENDMENTS	
	4/11 2ND READING AMENDMENTS NOT CONCURRED	50 0
	4/11 CONFERENCE COMMITTEE APPOINTED	
	4/12 CONFERENCE COMMITTEE REPORT NO. 1	
	4/12 2ND READING CONFERENCE COMMITTEE REPORT NO. 1 ADOPTED	49 0
	4/13 3RD READING CONFERENCE COMMITTEE REPORT NO. 1 ADOPTED	47 3
	HOUSE	
	4/12 CONFERENCE COMMITTEE APPOINTED	
	4/12 CONFERENCE COMMITTEE REPORT NO. 1	
	4/12 2ND READING CONFERENCE COMMITTEE REPORT NO. 1 ADOPTED	77 22
	4/13 3RD READING CONFERENCE COMMITTEE REPORT NO. 1 ADOPTED	80 20
	4/18 SIGNED BY PRESIDENT	
	4/18 SIGNED BY SPEAKER	
	4/18 TRANSMITTED TO GOVERNOR	
	5/01 SIGNED BY GOVERNOR CHAPTER NUMBER 581 EFFECTIVE DATE: 05/01/95	
SB 339	INTRODUCED BY CHRISTIAENS, ET AL. REVISE INSURANCE COVERAGE FOR MENTAL ILLNESS, ALCOHOLISM, AND DRUG ADDICTION	
	2/09 INTRODUCED	
	2/09 FIRST READING	
	2/09 REFERRED TO PUBLIC HEALTH, WELFARE & SAFETY	
	2/13 HEARING	
	2/15 COMMITTEE REPORT—BILL PASSED AS AMENDED	
	2/16 2ND READING PASSED	50 0
	2/17 3RD READING PASSED	50 0
	TRANSMITTED TO HOUSE	
	2/20 FIRST READING	
	2/20 REFERRED TO HEALTH CARE SELECT	
	3/09 REREFERRED TO HUMAN SERVICES & AGING	
	3/20 HEARING	
	3/27 COMMITTEE REPORT—BILL CONCURRED AS AMENDED	
	3/29 2ND READING CONCURRED	75 25
	3/30 3RD READING CONCURRED	75 24

SENATE BILL NO. 338

INTRODUCED BY

Jergeson Nelson Beck
Felande *Trivet* *McLean* *John Johnson* *M. Hanson*

A BILL FOR AN ACT ENTITLED: "AN ACT EXEMPTING FROM THE STATE SEVERANCE TAX FOR 24 MONTHS OIL OR NATURAL GAS PRODUCED FROM A WELL DRILLED AFTER MARCH 31, 1995; AMENDING SECTIONS 15-36-101 AND 15-36-121, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE AND CONTINGENT APPLICABILITY DATES."

Rehbein *Leitung*

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 15-36-101, MCA, is amended to read:

"15-36-101. Definitions and rate of tax -- state severance tax -- local government severance tax

-- assessment of nonworking interest owner -- exemption. (1) ~~Every~~ Each person ~~engaging in or carrying on the business of producing who produces~~ petroleum, other mineral or crude oil, or natural gas within this state or ~~engaging in or carrying on the business of owning, controlling, managing, leasing, or operating who~~ owns, controls, manages, leases, or operates within this state any well or wells from which any ~~merchandise or marketable~~ petroleum, other mineral or crude oil, or natural gas is ~~extracted or produced~~ shall, except as provided in 15-36-121, ~~each year when engaged in or carrying on the business in this state~~ pay to the department of revenue a state severance tax for deposit in the state general fund, ~~of the state of Montana~~ plus a local government severance tax in lieu of a tax on net proceeds for replacement of property taxes formerly levied on net proceeds. Except as provided in subsection (3), the state severance tax and the local government severance tax are as follows:

(a) except as provided in subsections (1)(b) through (1)(f), a 5% state severance tax on the gross taxable value of all the petroleum and other mineral or crude oil produced by the person, plus the local government severance tax of 8.4% on the gross taxable value, as defined in subsection (8)(a)(ii), of all the petroleum and other mineral or crude oil produced by the person, other than new production, from each lease or unit; but in determining the amount of the state severance tax and local government severance tax, there must be excluded from consideration all petroleum or other crude or mineral oil produced and used by the person during the year in connection with the person's operations in prospecting for, developing, and producing the petroleum or crude or mineral oil;

(b) a 2.65% state severance tax on the gross taxable value of all natural gas produced by the person, plus the local government severance tax of 15.25% on the gross taxable value, as defined in subsection (8)(a)(ii), of all natural gas produced by the person, other than new production, from each lease or unit; but in determining the amount of the state severance tax and the local government severance tax, there must be excluded from consideration all gas produced and used by the person during the year in connection with the person's operations in prospecting for, developing, and producing the gas or petroleum or crude or mineral oil; and there must also be excluded from consideration all gas, including carbon dioxide gas, recycled or reinjected into the ground;

(c) except as provided in subsection (4)(a), a 3% state severance tax on the gross taxable value of the incremental production of petroleum and other mineral or crude oil produced from a secondary recovery project commenced or expanded after December 31, 1993, and before January 1, 2002, plus the local government severance tax of 5% on the gross taxable value, as defined in subsection (8)(a)(ii), of the incremental petroleum and other mineral or crude oil produced by the person, other than new production, from each lease or unit in a secondary recovery project commenced or expanded after December 31, 1993, and before January 1, 2002. For purposes of this section, a secondary recovery project must meet each of the following requirements:

(i) The project must be certified as a secondary recovery project to the department by the board. The certification may be extended only after notice and hearing in accordance with Title 2, chapter 4.

(ii) The property to be affected by the project must be adequately delineated according to the specifications required by the board.

(iii) The project must involve the application of secondary recovery methods that can reasonably be expected to result in an increase, determined by the board to be significant in light of all the facts and circumstances, in the amount of petroleum or mineral or crude oil that may potentially be recovered. For purposes of this section, secondary recovery methods include but are not limited to:

(A) the injection of water into the producing formation for the purposes of maintaining pressure in that formation or for the purpose of increasing the flow of petroleum or mineral or crude oil from the producing formation to a producing well bore; or

(B) any other method approved by the board as a secondary recovery method.

(d) a 2.5% state severance tax on the gross taxable value of the incremental petroleum and other mineral or crude oil produced by the person, plus the local government severance tax of 5% on the gross

taxable value, as defined in subsection (8)(a)(ii), of the incremental petroleum and other mineral or crude oil produced by the person, other than new production, from each lease or unit in a tertiary recovery project after July 1, 1985. For purposes of this section, a tertiary recovery project must meet each of the following requirements:

(i) The project must be approved as a tertiary recovery project by the board of oil and gas conservation. The approval may be extended only after notice and hearing in accordance with Title 2, chapter 4.

(ii) The property to be affected by the project must be adequately delineated according to the specifications required by the board.

(iii) The project must involve the application of one or more tertiary recovery methods that can reasonably be expected to result in an increase, determined by the board to be significant in light of all the facts and circumstances, in the amount of crude oil that may potentially be recovered. For purposes of this section, tertiary recovery methods include but are not limited to:

(A) miscible fluid displacement;

(B) steam drive injection;

(C) micellar/emulsion flooding;

(D) in situ combustion;

(E) polymer augmented water flooding;

(F) cyclic steam injection;

(G) alkaline or caustic flooding;

(H) carbon dioxide water flooding;

(I) immiscible carbon dioxide displacement; or

(J) any other method approved by the board as a tertiary recovery method.

(e) except as provided in subsection (4)(b), a 2% state severance tax on the gross taxable value of the incremental petroleum and other mineral or crude oil produced by the person, plus the local government severance tax of 3.3% on the gross taxable value, as defined in subsection (8)(a)(ii), of the incremental petroleum and other mineral or crude oil produced by the person, other than new production, from each lease or unit in a tertiary recovery project commenced or expanded after December 31, 1993, and before January 1, 2002. The tertiary recovery project must meet the requirements of subsections (1)(d)(i) through (1)(d)(iii).

(f) a 5% local government severance tax on the gross taxable value, as defined in subsection (8)(a)(ii), of all petroleum and other mineral or crude oil produced by the person other than new production produced by a stripper well, as defined in subsection (9).

(2) For purposes of this section, the following definitions apply:

(a) "Board" means the board of oil and gas conservation.

(b) "Enhanced recovery project" means the use of any process for the displacement of oil from the earth other than primary recovery and includes the use of an immiscible, miscible, chemical, thermal, or biological process.

(c) "Existing enhanced recovery project" means an enhanced recovery project that began development before January 1, 1994.

(d) "Expanded enhanced recovery project" or "expansion" means the addition of injection wells or production wells, the change of injection pattern, or other operating changes to an existing enhanced recovery project that will result in the recovery of oil that would not otherwise be recovered.

(e) "Incremental production" means:

(i) the volume of oil produced by either a well in primary recovery recompleted as a horizontally completed well or by an expanded enhanced recovery project, which volume of production is in excess of the production decline rate established under the conditions existing before:

(A) the commencement of the recompletion of a well as a horizontally completed well;

(B) expansion of the existing enhanced recovery project; or

(C) commencing a new enhanced recovery project; or

(ii) in the case of any project that had no taxable production prior to commencing the enhanced recovery project, all production of petroleum or mineral or crude oil from the enhanced recovery project.

(f) "New enhanced recovery project" means an enhanced recovery project that began development after December 31, 1993, and before January 1, 2002.

(g) "Operator" or "producer" means the person responsible for the actual physical operation of an enhanced recovery project.

(h) "Primary recovery" means the displacement of oil from the earth into the well bore by means of the natural pressure of the oil reservoir and includes artificial lift.

(i) "Production decline rate" means the projected rate of future oil production, extrapolated by a method approved by the board, that must be determined for a project area prior to commencing a new or

expanded secondary recovery project or the recompletion of a well as a horizontally completed well. The approved production decline rate must be certified in writing to the department of revenue by the board. In that certification, the board shall identify the project area and shall specify the projected rate of future oil production by calendar year and by calendar quarter within each year. The certified rate of future oil production must be used to determine the volume of incremental production that qualifies for the tax rate imposed under subsection (1)(c) or (1)(e).

(j) "Secondary recovery project" means an enhanced recovery project that is not a tertiary recovery project.

(k) "Tertiary recovery project" means an enhanced recovery project using a tertiary recovery method described in subsection (1)(d)(iii).

(3) (a) A local government severance tax is imposed on the gross value paid in cash or apportioned in kind to a nonworking interest owner by the operator or producer of extracted marketable petroleum, other mineral or crude oil, or natural gas subject to local government severance taxes imposed under this chapter. The local government severance tax on nonworking interest owners is computed at the following rates:

(i) 12.5% on the gross value paid in cash or apportioned in kind to a nonworking interest owner by the operator or producer of extracted marketable petroleum and other mineral or crude oil;

(ii) 15.25% on the gross value paid in cash or apportioned in kind to a nonworking interest owner by the operator or producer of extracted or marketable natural gas.

(b) The amounts paid or apportioned in kind to nonworking interest owners are exempt from the local government severance taxes imposed under 15-36-121~~(2)~~(3) and under subsections (1)(a) through (1)(f) of this section.

(4) (a) Incremental production from a secondary recovery project is subject to the tax rate imposed in subsection (1)(c) if the average price per barrel of oil as reported in the Wall Street Journal for west Texas intermediate crude oil during a calendar quarter is less than \$30 a barrel. If the price of oil is equal to or greater than \$30 per barrel in a calendar quarter as determined in subsection (5), incremental production from a secondary recovery project is taxed as provided in subsection (1)(a) for production occurring in that quarter.

(b) Incremental production from a tertiary recovery project is subject to the tax rate imposed in subsection (1)(e) if the average price per barrel of oil as reported in the Wall Street Journal for west Texas

1 intermediate crude oil during a calendar quarter is less than \$30 a barrel. If the price of oil is equal to or
2 greater than \$30 per barrel in a calendar quarter as determined in subsection (5), incremental production
3 from a tertiary recovery project is taxed as provided in subsection (1)(d) for production occurring in that
4 quarter.

5 (5) For the purposes of subsections (4)(a) and (4)(b), the average price per barrel must be
6 computed by dividing the sum of the daily price for west Texas intermediate crude oil as reported in the
7 Wall Street Journal for the calendar quarter by the number of days on which the price was reported in the
8 quarter.

9 (6) Nothing in this part may be construed as requiring laborers or employees hired or employed by
10 any person to drill any oil or natural gas well or to work in or about any oil or natural gas well or prospect
11 or explore for or do any work for the purpose of developing any petroleum, other mineral or crude oil, or
12 natural gas to pay the severance tax, nor may work done or the drilling of a well or wells for the purpose
13 of prospecting or exploring for petroleum, other mineral or crude oil, or natural gas or for the purpose of
14 developing them be considered to be the engaging in or carrying on of the business. If, in the doing of any
15 work, in the drilling of any oil or natural gas well, or in prospecting, exploring, or development work, any
16 merchantable or marketable petroleum, other mineral or crude oil, or natural gas in excess of the quantity
17 required by the person for carrying on the operation is produced sufficient in quantity to justify the
18 marketing of the petroleum, other mineral or crude oil, or natural gas, the work, drilling, prospecting,
19 exploring, or development work is considered to be the engaging in and carrying on of the business of
20 producing petroleum, other mineral or crude oil, or natural gas within this state within the meaning of this
21 section.

22 (7) Every person required to pay the state or local government severance tax under this section
23 shall pay the tax in full for the person's own account and for the account of each of the other owners of
24 the gross proceeds in value or in kind of all the marketable petroleum or other mineral or crude oil or natural
25 gas extracted and produced, including an owner or owners of working interest, royalty interest, overriding
26 royalty interest, carried working interest, net proceeds interest, production payments, and all other interest
27 or interests owned or carved out of the total gross proceeds in value or in kind of the extracted marketable
28 petroleum or other mineral or crude oil or natural gas, except that any of the interests that are owned by
29 the federal, state, county, or municipal governments are exempt from taxation under this chapter. Unless
30 otherwise provided in a contract or lease, the pro rata share of any royalty owner or owners will be

deducted from any settlements under the lease or leases or division of proceeds orders or other contracts.

(8) For purposes of this section, the following definitions apply:

(a) (i) "Gross taxable value", for the purpose of computing the state severance tax, means the gross value of the product as determined in 15-36-103.

(ii) "Gross taxable value", for the purpose of computing the local government severance tax, means the gross value of the product as determined in 15-36-103 less the gross value paid in cash or apportioned in kind to a nonworking interest owner by the operator or producer of extracted marketable petroleum, other mineral or crude oil, or natural gas.

(b) "Nonworking interest owner" means any interest owner who does not share in the development and operation costs of the lease or unit.

(9) For the purposes of this section, "stripper well" means a well that produces less than 10 barrels a day, determined by dividing the amount of production from a lease or unitized area for the year prior to the current calendar year by the number of producing wells in the lease or unitized area and by dividing the resulting quotient by 365."

Section 2. Section 15-36-121, MCA, is amended to read:

"15-36-121. Exemption from state severance tax -- imposition of local government severance tax.

(1) It is the public policy of this state to promote a sufficient supply of natural gas to provide for the residents of this state, to lessen Montana's dependence on imported natural gas, and to encourage the exploration for and development and production of natural gas, petroleum, and other mineral and crude oil within the state.

(2) All production of natural gas, petroleum, or other mineral or crude oil from a well that was drilled after March 31, 1995, or from a well that has not produced natural gas, petroleum, or other mineral or crude oil during the 5 years immediately preceding the first month of qualified production is exempt from all of the state severance tax imposed by 15-36-101 during the 24 months immediately following the date of notification to the department of revenue that an oil well is flowing or being pumped or that a gas well has been connected to a gathering or distribution system.

~~(2)(3)~~ (3) All the natural gas produced from ~~any~~ a well that has produced 60,000 cubic feet or less of natural gas a day for the calendar year prior to the current year ~~shall be~~ is taxed as provided in this section. ~~Production must be~~ Average daily production is determined by dividing the amount of production

1 from a lease or unitized area for the year ~~prior to~~ immediately preceding the current calendar year by the
2 number of producing wells in the lease or unitized area and by dividing the resulting quotient by 365. The
3 first 30,000 cubic feet of average daily production ~~per~~ for each well is exempt from all of the state
4 severance tax imposed by 15-36-101. The first 30,000 cubic feet of average daily production ~~per~~ for each
5 well is subject to a local government severance tax of 10% on the gross taxable value, as defined in
6 15-36-101(6)(a)(ii). ~~Everything over~~ Natural gas production in excess of 30,000 cubic feet of gas produced
7 is taxed at 1.59% on the gross taxable value for the state severance tax plus a local government severance
8 tax of 10% on the gross taxable value, as defined in 15-36-101~~(6)(a)(ii)~~ (8)(a)(ii).

9 ~~(3)(4)~~ Notwithstanding the provisions of ~~subsection~~ subsections (2) and (3), all reporting
10 requirements under the state severance tax remain in effect."

11
12 NEW SECTION. Section 3. Effective date. [This act] is effective on passage and approval.

13
14 NEW SECTION. Section 4. Contingent applicability. (1) If [this act] is passed and approved before
15 April 1, 1995, then [this act] applies to oil and gas produced from a well that is drilled after March 31,
16 1995.

17 (2) If [this act] is passed and approved after March 31, 1995, then [this act] applies retroactively,
18 within the meaning of 1-2-109, to oil and gas produced from a well drilled after March 31, 1995.

19 -END-

STATE OF MONTANA - FISCAL NOTE

Fiscal Note for SB0338, as introduced

DESCRIPTION OF PROPOSED LEGISLATION: An act exempting from the state severance tax for 24 months oil or natural gas produced from a well drilled after March 31, 1995; and providing an immediate effective date and contingent applicability dates.

ASSUMPTIONS:

1. Total oil production exempt from the net proceeds tax from the 24 month period 10/1/92 through 9/30/94 was 1,278,671 bbls. (MDOR).
2. Total natural gas production exempt from the net proceeds tax from the 24 month period 10/1/92 through 9/30/94 was 7,266,530 MCF's (MDOR).
3. Total oil and natural gas production exempt for the first 24 months from wells drilled after 3/31/95 will be the same as exempted from the net proceeds tax during the 24 month period of 10/1/92 through 9/30/94 (MDOR).
4. Oil and natural gas wells drilled after March 31, 1995 and their associated production is distributed evenly across a calendar year (MDOR).
5. Taxable oil and natural gas production is 95.8% of total production (MDOR).
6. Montana oil price per barrel is \$14.24 in FY95, \$14.56 in FY96, and \$15.58 in FY97 (ROC/MDOR).
7. Montana natural gas price per MCF is \$1.63 in FY95, \$1.65 in FY96, and \$1.71 in FY97 (ROC/MDOR).
8. Natural gas stripper production accounts for 53.5% of total production and exempt stripper production accounts for 87.2% of total stripper production (MDOR).
9. Natural gas production from a new well cannot qualify as stripper production during the first calendar year of production (MDOR).

FISCAL IMPACT:

Revenues:

The proposed legislation impacts oil severance tax collections by an estimated (\$17,000) and natural gas severance tax collections by an estimated (\$6,000) in FY95. All oil and natural gas severance tax collections are deposited 100% to the general fund.

	<u>FY96</u>	<u>FY97</u>
	<u>Difference</u>	<u>Difference</u>
Oil Severance Tax	(\$339,000)	(\$802,000)
Natural Gas Severance Tax	(113,000)	(206,000)
Total	(\$452,000)	(\$1,008,000)

LONG-RANGE IMPACTS OF THE PROPOSED LEGISLATION:

Under the listed price and production assumptions, the proposed legislation would impact future oil severance tax collections by (\$916,000) and natural gas severance tax collections by (\$172,000) in each fiscal year after FY97. The combined impact to the general fund would be (\$1,088,000) per fiscal year.

Dave Lewis 2.14.95
DAVE LEWIS, BUDGET DIRECTOR DATE
Office of Budget and Program Planning

Greg Jergeson 2/15/95
GREG JERGESON, PRIMARY SPONSOR DATE
Fiscal Note for SB0338, as introduced

SB 338

STATE OF MONTANA - FISCAL NOTE

Fiscal Note for SB0338, 2nd reading

DESCRIPTION OF PROPOSED LEGISLATION: An act exempting from the state severance tax for 24 months oil or natural gas produced from a well drilled after March 31, 1995; and providing an immediate effective date and contingent applicability dates.

ASSUMPTIONS:

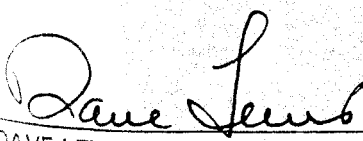
1. Total oil production exempt from the net proceeds tax from the 24 month period 10/1/92 through 9/30/94 was 1,278,671 bbls. (MDOR).
2. Total natural gas production exempt from the net proceeds tax from the 24 month period 10/1/92 through 9/30/94 was 7,266,530 MCF's (MDOR).
3. Total oil and natural gas production exempt for the first 24 months from wells drilled after 3/31/95 will be the same as exempted from the net proceeds tax during the 24 month period of 10/1/92 through 9/30/94 (MDOR).
4. Oil and natural gas wells drilled after March 31, 1995 and their associated production is distributed evenly across a calendar year (MDOR).
5. Taxable oil and natural gas production is 95.8% of total production (MDOR).
6. Montana oil price per barrel is \$14.24 in FY95, \$14.56 in FY96, and \$15.58 in FY97 (ROC/MDOR).
7. Montana natural gas price per MCF is \$1.63 in FY95, \$1.65 in FY96, and \$1.71 in FY97 (ROC/MDOR).
8. Natural gas stripper production accounts for 53.5% of total production and exempt stripper production accounts for 87.2% of total stripper production (MDOR).
9. Natural gas production from a new well cannot qualify as stripper production during the first calendar year of production (MDOR).
10. **Senate Bill 412 is passed and signed into law (MDOR).**
11. Royalty production accounts for 14.23% of total Post-1985 natural gas production (MDOR).
12. Royalty production accounts for 13.14% of total Post-1985 oil production (MDOR).
13. The department will adjust the distribution formula in SB412 between state accounts to ensure that the decrease in revenue collections under the proposed legislation will be borne by the general fund (MDOR).

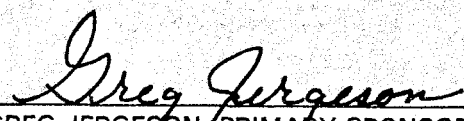
FISCAL IMPACT:

Expenditures:

There is no impact to department expenditures under the proposed legislation.

(continued - page 2)

 3.24.94
DAVE LEWIS, BUDGET DIRECTOR DATE
Office of Budget and Program Planning

 3/29/95
GREG JERGSON, PRIMARY SPONSOR DATE
Fiscal Note for SB0338, 2nd reading

SB 338

Revenues:

The following fiscal impacts to the general fund are relative to the impacts under Senate Bill 412:

	<u>FY96</u>	<u>FY97</u>
	<u>Difference</u>	<u>Difference</u>
Oil Production Tax	(\$294,000)	(\$697,000)
<u>Natural Gas Production Tax</u>	<u>(97,000)</u>	<u>(176,000)</u>
Total	(\$391,000)	(\$873,000)

LONG-RANGE IMPACTS OF THE PROPOSED LEGISLATION:

Under the listed price and production assumptions, the proposed legislation would impact future oil production tax collections by (\$796,000) and natural gas production tax collections by (\$147,000) in each fiscal year after FY97. The combined impact to the general fund would be (\$943,000) per fiscal year.

TECHNICAL NOTE:

The section of the proposed legislation containing the coordination instructions for SB412 does not allow royalty owners to receive the 24-month production tax incentive. However, the first section of the bill which amends current law (not SB412) would allow royalty owners to receive the 24-month holiday from the current law state severance tax.

STATE OF MONTANA - FISCAL NOTE

Fiscal Note for SB-338, 3rd reading, as amended.

DESCRIPTION OF PROPOSED LEGISLATION: An act exempting from the state severance tax for 24 months oil or natural gas produced from a well drilled after March 31, 1995; and providing an immediate effective date and contingent applicability dates.

ASSUMPTIONS:

Total oil production exempt from the net proceeds tax from the 24 month period 10/1/92 through 9/30/94 was 1,224,967 bbls. (MDOR).

Total natural gas production exempt from the net proceeds tax from the 24 month period 10/1/92 through 9/30/94 was 7,266,530 MCF's (MDOR).

Total oil and natural gas production exempt for the first 24 months from wells drilled after 3/31/95 will be the same as exempted from the net proceeds tax during the 24 month period of 10/1/92 through 9/30/94 (MDOR).

Oil and natural gas wells drilled after March 31, 1995 and their associated production is distributed evenly across a calendar year (MDOR).

Taxable oil and natural gas production is 95.8% of total production (MDOR).

Montana oil price per barrel is \$14.24 in FY95, \$14.56 in FY96, and \$15.58 in FY97 (ROC/MDOR).

Montana natural gas price per MCF is \$1.63 in FY95, \$1.65 in FY96, and \$1.71 in FY97 (ROC/MDOR).

Natural gas stripper production accounts for 53.5% of total production and exempt stripper production accounts for 87.2% of total stripper production (MDOR).

Natural gas production from a new well cannot qualify as stripper production during the first calendar year of production (MDOR).

Senate Bill 412 is passed and signed into law (MDOR).

Royalty production accounts for 14.23% of total Post-1985 natural gas production (MDOR).

Royalty production accounts for 13.14% of total Post-1985 oil production (MDOR).

The department will adjust the distribution formula in SB-412 between state accounts to ensure that the decrease in revenue collections under the proposed legislation will be borne by the general fund (MDOR).

FISCAL IMPACT:

Expenditures:

There is no impact to department expenditures under the proposed legislation.

David M. Lewis 4-7-95

DAVID LEWIS, BUDGET DIRECTOR DATE
Office of Budget and Program Planning

GREG JERGSON, PRIMARY SPONSOR DATE
Fiscal Note for SB-338, 3rd reading, as amended.

SB 338 #3

Revenues:

The following fiscal impacts to the general fund are relative to the impacts under Senate Bill 412. The proposed legislation has an impact of (\$20,000) in FY95 of the current biennium.

	<u>FY96</u>	<u>FY97</u>
	<u>Difference</u>	<u>Difference</u>
Oil Production Tax	(\$294,000)	(\$588,000)
<u>Natural Gas Production Tax</u>	<u>(97,000)</u>	<u>(141,000)</u>
Total	(\$391,000)	(\$729,000)

LONG-RANGE IMPACTS OF THE PROPOSED LEGISLATION:

Under the listed price and production assumptions, the proposed legislation would impact future oil production tax collections by (\$597,000) and natural gas production tax collections by (\$100,000) in each fiscal year after FY1997. The combined impact to the general fund would be (\$697,000) per fiscal year.

TECHNICAL NOTE:

The section of the proposed legislation containing the coordination instructions for SB-412 does not allow royalty owners to receive the 24-month production tax incentive. However, the first section of the bill which amends current law (not SB-412) would allow royalty owners to receive the 24-month holiday from the current law state severance tax.

MINUTES

**MONTANA SENATE
54th LEGISLATURE - REGULAR SESSION**

COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN GERRY DEVLIN**, on March 2, 1995, at 8:00 a.m.

ROLL CALL

Members Present:

Sen. Gerry Devlin, Chairman (R)
Sen. Mike Foster, Vice Chairman (R)
Sen. Mack Cole (R)
Sen. Delwyn Gage (R)
Sen. Lorents Grosfield (R)
Sen. John G. Harp (R)
Sen. Dorothy Eck (D)
Sen. Barry "Spook" Stang (D)
Sen. Fred R. Van Valkenburg (D)

Members Excused: None

Members Absent: None

Staff Present: Jeff Martin, Legislative Council
Renée Podell, Committee Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:

Hearing: SB 338
Executive Action: SB 138, SB 198, SB 161

HEARING ON SB 338

Opening Statement by Sponsor:

SEN. GREG JERGESON, SD 46, Chinook, commented many will be familiar with the concept of this bill. He explained in 1987, the legislature adopted a 24 month holiday for new oil and gas production in Montana on the state's severance tax. He said it was adopted as an incentive to encourage more production and exploration in the State of Montana. **SEN. JERGESON** stated there was a provision that the severance tax holiday would be eliminated if the price of West Texas crude went above a certain point. He explained during the Gulf War the West Texas crude did go up causing the holiday in Montana to be eliminated. **SEN. JERGESON** acknowledged SB 338 reinstates the holiday.

Proponents' Testimony:

Gail Abercrombie, Montana Petroleum Association, affirmed Canadian firms show interest with the incentive. She urged support of SB 338.

Pete Madison, Vice President Entec Oil Production, stated this is a win situation because incentives work.

Frank Haughton, Jr., Small Independent, representing Petroleum Landmen, disclosed it is his belief there exists in Montana the possibility of discovering large reserves. He explained the biggest obstacle in getting wells drilled in Montana is the tax burden imposed on producers. **Mr. Haughton** urged support stating SB 338 will put rigs back to work.

Jeff Hume, Continental Resources, stated this bill could double, perhaps triple oil activity in the state and move Montana in the front of oil production.

Chip Youlden, Vice President of Finance, J.N. Exploration and Production, professed passage of this bill would be a step up.

Tom Hauptman, President, KGH Production, said he is a native Montanan forced to go elsewhere to drill wells due to high taxes.

Jim Halverson, Oil and Gas in Coal Counties, presented a chart of what is happening in Montana due to average mill levies. **EXHIBIT 1.**

Patrick Montalben, President, MSR, Cutbank, Montana, and Northern Montana Oil and Gas Association, announced most of the association consists of stripper operators. He said SB 338 gives the incentive to go out and drill more wells.

Gloria Pladichuk, Richland Development, urged support for SB 338 stating the incentive will help economy.

Greg Oblander, Montana Power Company (MPC), Butte, announced the incentive to MPC will be to add more wells.

Bill Vaughey, Independent Explorer for Oil and Gas, Havre, commented this piece of legislation will yield a result very similar to what the horizontal bill did for Montana since its passage in the 1993 special session.

P. O'Reilly, explained she is working for three companies who have shut-in wells. She stated one company has 109 wells, another has 28, and another company has 63 wells that could be turned on if this bill is passed. **Ms. O'Reilly** remarked each company is inclined to turn the wells on. She urged support for SB 338.

David Owen, Montana Chamber of Commerce, urged support for this legislation.

SEN. LARRY TVEIT, SD 50, attested he has been a small royalty owner for 20 years. He commented the fiscal note speaks to losses but doesn't address the gains which are hundreds of jobs. SEN. TVEIT stated this is a tremendous incentive program and money can be made on this venture.

Robert L. Nance, President, Nance Petroleum Corporation, submitted written testimony. EXHIBIT 2.

Herb Vasseur, President, Montana Land and Mineral Owners Association, submitted written testimony. EXHIBIT 3.

Opponents' Testimony:

None

Informational Testimony:

None

Questions From Committee Members and Responses:

SEN. DOROTHY ECK asked Mr. Bender to comment on the fiscal note. Mr. Bender stated fiscal notes are controversial enough without getting into indirect effects.

SEN. ECK asked Ms. Abercrombie if there is a commitment from companies with this incentive as experienced by the horizontal well incentive. Ms. Abercrombie commented this is a little broader based but there is a positive feel with companies.

{Tape: 1; Side: B; Comments: Tape Turned}

SEN. ECK asked Ms. Abercrombie if larger wells in Eastern Montana could be opened again. Ms. Abercrombie stated it is feasible.

CHAIRMAN DEVLIN asked SEN. JERGESON if this bill is a continuation of the bill introduced in 1987. SEN. JERGESON stated "Yes, but there is no sunset".

SEN. MIKE FOSTER questioned Mr. Bender in regard to the fiscal note not containing any figures for new jobs and new production. Mr. Bender responded these figures are outside the department's planning horizon.

Closing by Sponsor:

SEN. JERGESON submitted a technical amendment at the request of the Department of Revenue declaring the amendment was designed to coordinate this bill with SB 412. EXHIBIT 4. He urged committee support for the bill with the coordination amendment.

**MONTANA SENATE
1995 LEGISLATURE
TAXATION COMMITTEE**

ROLL CALL

DATE _____

March 2, 1995

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Presents
Bill
arr. 8:0

Presents
bill
8:15 ar

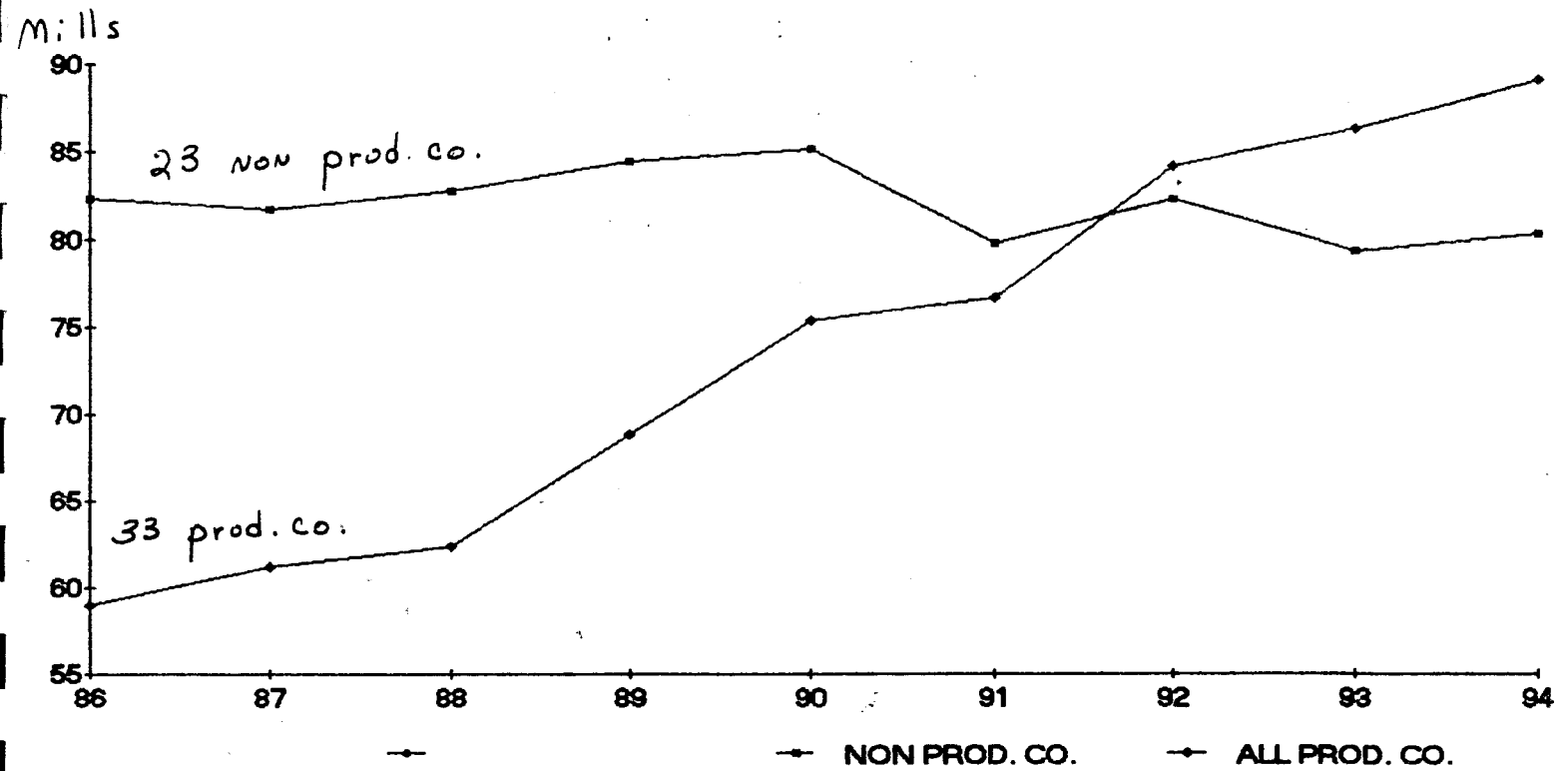
SENATE TAXATION

DATE March 2, 1995

EXHIBIT NO. 1

EXHIBIT NO. SB 338

d-1



Average mill levies

SENATE TAXATION

DATE March 2, 1995EXHIBIT NO. 2BILL NO. SB 338

530 North 31st Street, Suite 500
P. O. Box 7168
Billings, Montana 59103-7168
(406)245-6248
FAX (406)245-9106

NANCE PETROLEUM CORPORATION

Robert L. Nance, President

March 1, 1995

The Honorable Senator Gerry Devlin, Chair
Senate Taxation Committee
Montana State Senate
Capitol Station
Helena, MT 59620-1706

VIA FAX 1(900)225-1600

Dear Senator Devlin:

I am writing this letter to urge your support of SB 338, the New Production Incentive Bill, which will be coming before your Committee on March 2, 1995.

I have been an independent oil producer in Montana for twenty-six years and have suffered through some very depressive times in this business. Montana has a great deal of potential for a successful energy future, despite some reports that the industry is about finished that are simply not true. The message our State sends to "Out of State" investors is very negative and any positive action, such as this, is helpful.

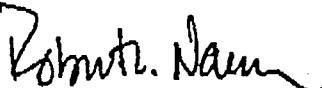
Montana reached a high of \$137 million in State and Local production tax receipts in 1984, today that number is approximately \$65 million $\pm$, that is over a 50% decrease. A lot, but not all, of this decline is due to decreased activity, any help and encouragement this State can give to this industry will, in the long run, bear fruit and stimulate our economy.

My company plans several deep (13,500 foot) wells in Eastern Montana this year. An incentive, such as proposed in SB 338, will have a major impact upon our plans to drill or not.

Thank you for your consideration to this important legislation.

Sincerely yours,

NANCE PETROLEUM CORPORATION



Robert L. Nance
President

RLN/jm



Montana Land and Mineral
Owners Association

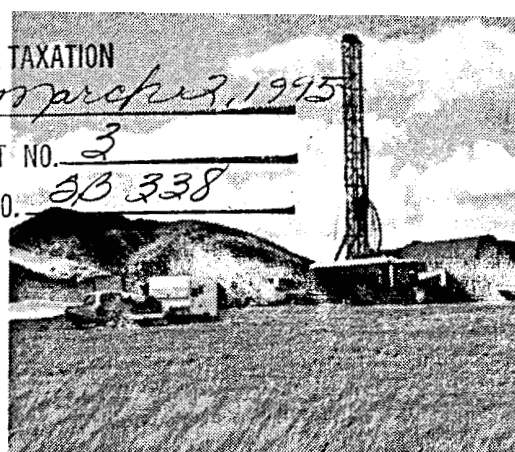
P.O. Box 1301
Havre, Montana 59501

SENATE TAXATION

DATE March 2, 1995

EXHIBIT NO. 3

BILL NO. SB 338



February 24, 1995

The Honorable Gerry Devlin
Chairman, Senate Taxation Committee
Montana State Senate
Capitol Station
Helena, MT 59620-1706

RE: SB 338 (Jergesen) Oil and Gas New Well Incentive

Dear Senator Devlin:

The Montana Land and Mineral Owners Association consists of approximately 170 members with mineral and surface acreage in Blaine, Chouteau, Hill, Liberty and Phillips Counties.

On behalf of the directors and members of the MLMOA, we are writing to indicate our support of SB 338 which promotes industry growth in the State of Montana.

Sincerely,

Herb Vasseur

Herb Vasseur, President

HV:sn

**Amendments to Senate Bill 338
First Reading Copy**

**Prepared by Department of Revenue
3/ 1/95 5:17pm**

REASON FOR AMENDMENT: This amendment is designed to coordinate this bill with Senate Bill No. 412 [LC0975.01]

AMENDMENTS

1. Page 8, line 11.

Insert: "NEW SECTION. **Section 3. Coordination instruction.** If Senate Bill No. 412 is passed and approved then Senate Bill No. 412 is further amended as provided in subsection (1) and the distribution of revenue shall be modified as provided in subsection (2). If necessary the Code Commissioner shall correct all erroneous internal references within Senate Bill No. 412 cause by [this section.]

(1) Section 4 of Senate Bill No. 412 shall be further amended to reduce the tax rate for natural gas in subsection 2(b)(i) and 2(b)(ii) for the first 24 months of qualified production by 2.65% and the tax rate for oil in subsections 4(a)(ii)(A), 4(a)(ii)(B), 4(c)(i), 4(c)(ii), 4(d)(i)(B), 4(d)(ii)(B) and 4(e)(ii) be reduced by 5% for the first 24 months of qualified production.

(2) The department of revenue shall, by rule, change the formula under [section 18] for the distribution of taxes collected under [section 4] of Senate Bill 412. In recalculating the distribution rates for the revenue raised by Senate Bill No. 412, the department of revenue must determine the revised rate according to a formula that presumes that the reduction in the tax rate as set forth in [section 4] of Senate Bill No. 412 as introduced and as amended by [this section] is to be borne by the state and not local governments."

Renumber: subsequent sections.

DATE March 2, 1995
 SENATE COMMITTEE ON Taxation
 BILLS BEING HEARD TODAY: SB 338
Senator Ferguson

< ■ > PLEASE PRINT < ■ >

Check One

Name	Representing	Bill No.	Support	Oppose
JEFF HUME	END OF CONTINENTAL RESOURCES	338	X	
FRANK B HAUGHTON JR	Independent & MAPL	338	X	
GAIL ABERCROMBIE	MT Petroleum Assn	338	X	
JIM HALVERSON	OIL-GAS-COAL CO	338	X	
TOM HAUTMAN	INDEPENDENT	338	X	
SBROMIE ANDERSON	SHELL B&P INC	338	X	
Chip Youlden	JN Exploration & Production	338	X	
BILL VAUGHNEY	HAVERE INDEP. O&G PRODUCER	338	X	
Gloria Paladichuk	Richland Development	338	X	
Patrick M. Montalban	MSR NMOGA	338	X	
DENNIS IVERSON	NMOGA	"	✓	
Orin J O'Bulley	Self & 3 fields	338	X	
David Owen	MT chamber	338	✓	
Larry Truett	Senate Dist 50	338	✓	

VISITOR REGISTER

PLEASE LEAVE PREPARED STATEMENT WITH COMMITTEE SECRETARY

MINUTES

**MONTANA SENATE
54th LEGISLATURE - REGULAR SESSION**

COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN GERRY DEVLIN**, on March 13, 1995, at 8:00 a.m.

ROLL CALL

Members Present:

Sen. Gerry Devlin, Chairman (R)
Sen. Mike Foster, Vice Chairman (R)
Sen. Mack Cole (R)
Sen. Delwyn Gage (R)
Sen. Lorents Grosfield (R)
Sen. John G. Harp (R)
Sen. Dorothy Eck (D)
Sen. Barry "Spook" Stang (D)
Sen. Fred R. Van Valkenburg (D)

Members Excused: None

Members Absent: None

Staff Present: Jeff Martin, Legislative Council
Renée Podell, Committee Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:

Hearing: HB 320, HB 343, HB 389, SB 219
Executive Action: SB 336, SB 306, SB 257, SB 338, HB 320

HEARING ON HB 389

Opening Statement by Sponsor:

REP. DON LARSON, HD 58, Powell, Granite and Missoula Counties, announced HB 389 is at the request of the Rural Tax Assessors of Montana. He explained last session HB 50 was passed allowing assessors in the state to become state employees. He reported the bill hasn't worked as well as everyone hoped it would. **REP. LARSON** reported local control, and local accountability is the reason this legislation is being proposed.

would still have authority to set a recreational use fee at full market value.

Vote: MOTION CARRIED 5 - 3 on roll call vote. SEN. LORENTS GROSFIELD was not in attendance.

EXECUTIVE ACTION ON SB 338

Discussion: Mr. Martin explained he didn't bring the coordination amendment for today's executive action.

SEN. GAGE asked the committee to hold action on SB 338.

EXECUTIVE ACTION ON SB 306

Discussion: SEN. GAGE commented SB 306 clears up a situation where an individual is taxed in another state on the contribution portion and the individual won't be taxed in Montana.

Mr. Martin discussed testimony given by an individual from Pennsylvania who paid into a retirement annuity account. He stated contributions were taxed by Pennsylvania at the time it went in, however, it wasn't taxed at the federal level. He stated when the individual received the benefit, it was a lump sum benefit, it was recorded on the individual's federal adjusted gross income and Montana recognized it as taxable income.

SEN. ECK commented this deals with the tax benefit rule. She stated there is another piece of legislation which deals with this. SEN. GAGE acknowledged this issue is contained in the committee bill he requested.

Motion: SEN. HARP MOVED TO TABLE SB 306.

Vote: MOTION CARRIED 6 - 2 on roll call vote. SEN. GROSFIELD was not in attendance.

EXECUTIVE ACTION ON SB 257

Motion: SEN. GAGE MOVED TO TABLE SB 257.

Vote: MOTION CARRIED 7 - 1 with SEN. VAN VALKENBURG voting in opposition. SEN. GROSFIELD was not in attendance.

EXECUTIVE ACTION ON HB 320

Discussion: SEN. HARP explained this bill is in response to the legislature saying railroads will be excluded.

Motion/Vote: SEN. GAGE MOVED DO CONCUR IN HB 320. THE MOTION CARRIED UNANIMOUSLY.

**MONTANA SENATE
1995 LEGISLATURE
TAXATION COMMITTEE**

ROLL CALL

DATE _____

March 13, 1995

[illegible]

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CS-09

MINUTES

MONTANA SENATE 54th LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By CHAIRMAN GERRY DEVLIN, on March 14, 1995, at
8:00 a.m.

ROLL CALL

Members Present:

Sen. Gerry Devlin, Chairman (R)
Sen. Mike Foster, Vice Chairman (R)
Sen. Mack Cole (R)
Sen. Delwyn Gage (R)
Sen. Lorents Grosfield (R)
Sen. John G. Harp (R)
Sen. Dorothy Eck (D)
Sen. Barry "Spook" Stang (D)
Sen. Fred R. Van Valkenburg (D)

Members Excused: None

Members Absent: None

Staff Present: Jeff Martin, Legislative Council
Renée Podell, Committee Secretary

Please Note: These are summary minutes. Testimony and
discussion are paraphrased and condensed.

Committee Business Summary:

Hearing: SB 414, HB 424, HB 449, HJR 16
Executive Action: HB 424, SB 338, SB 358, SB 412, HJR 16

HEARING ON SB 414

Opening Statement by Sponsor:

SEN. BOB BROWN, SD 40, Whitefish, reported this bill was prompted by the Governor's Task Force on Endowed Philanthropy. He explained SB 414 will allow individuals, partnerships, limited liability companies, estates, or business corporations a credit against taxes in an amount of 50% of the aggregate amount of charitable contributions made to any permanent endowment fund of a community foundation located in Montana. SEN. BROWN presented a written example of how the credit works. EXHIBIT 1.

Opponents' Testimony:

None

Informational Testimony:

None

Questions From Committee Members and Responses:

None

Closing by Sponsor:

REP. COBB offered no further comment in closing.

{Tape: 1; Side: B; Approx. Counter: 28.2.}

EXECUTIVE ACTION ON SB 338

Motion: SEN. HARP MOVED COORDINATING AMENDMENTS TO SB 338 AND SB 412 (sb033802.ajm). EXHIBIT 20.

Discussion: SEN. HARP asked Mr. Martin to explain the purpose of the amendments.

SEN. DOROTHY ECK asked SEN. HARP what is expected to happen with with contingent voidness proposals. SEN. HARP responded cuts will be made in the Free Conference Committee with HB 2. He explained the budget will be reviewed close to the end of the session in light of certain bills with the contingent voidness clause and if the bills can't fit into the budget, they die.

SEN. HARP explained on this particular issue this is not a reduction with existing revenue, this is a reduction of potential new revenue. He stated he wasn't aware the contingency voidness provision was included in this, and he would like to separate the question excluding it from his motion. CHAIRMAN DEVLIN clarified that SEN. HARP moved everything down to Section 4 (excluding Section 4), amendment number 1 and the title.

SEN. ECK commented she has a problem with SEN. HARP'S definition of contingent voidness. She stated she will support the bill, the amendments and the deletion of the contingent voidness language, however, a more careful definition of what contingent voidness really is would be helpful.

Motion/Vote: QUESTION WAS CALLED ON THE AMENDMENT PROPOSED BY SEN. HARP. THE MOTION CARRIED UNANIMOUSLY.

Motion: SEN. HARP MOVED SB 338 DO PASS AS AMENDED.

Discussion: SEN. DELWYN GAGE asked if this bill passes will the amendments put into this bill have to be put into SB 412. Mr. Martin stated, "Yes".

Vote: MOTION PASSED UNANIMOUSLY.

EXECUTIVE ACTION ON SB 358

Motion: SEN. HARP MOVED AMENDMENTS PRESENTED BY CHAIRMAN DEVLIN (601117SC.SRF).

Discussion: Mr. Martin explained the amendments.

Motion/Vote: MOTION CARRIED ON THE AMENDMENTS UNANIMOUSLY.

Vote: SEN. MIKE FOSTER MOVED SB 358 DO PASS AS AMENDED.

EXECUTIVE ACTION ON SB 412

Motion: SEN. LORENTS GROSFIELD MOVED AMENDMENTS TO SB 412 (prepared by SEN. GROSFIELD, Mr. Martin and Mr. Hoffman).

Discussion: Mr. Martin explained the amendments.

SEN. HARP asked SEN. GROSFIELD if the proponents are in agreement with the amendments. SEN. GROSFIELD stated this is just a clean-up amendment.

{Tape: 2; Side: A; Comments: Insert second tape.}

Mr. Martin commented SB 45 is in conflict with SB 412. He stated SB 45 amends a couple sections of law, one of which, is already repealed.

CHAIRMAN DEVLIN asked Mr. Hoffman where SB 45 is in the process. Mr. Hoffman stated it has been signed by the Governor.

Mr. Martin said a coordination instruction can be done if both bills are passed and approved. He said he would repeal 15, 16, and 102 if both bills are passed and approved, and insert the following language, "the amendment to 15, 16, and 102 in SB 45 is void".

Vote: MOTION CARRIED UNANIMOUSLY.

Motion/Vote: SEN. HARP MOVED SB 412 DO PASS AS AMENDED.

Discussion: SEN. GAGE voiced concern with Page 7, Line 25 in regard to pre-1985 old production wells. He stated the royalty owner's proposal is 16% in this bill. He said currently it is 18.2%. SEN. GAGE said he doesn't know anyone in the State of Montana that is getting that kind of tax break this session. He

**MONTANA SENATE
1995 LEGISLATURE
TAXATION COMMITTEE**

ROLL CALL

DATE _____

March 15, 1995

[illegible]

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DATE March 14, 1995EXHIBIT NO. 20Amendments to Senate Bill No. 338
First Reading CopyBILL NO. SB 338Requested by Senator Devlin
For the Committee on TaxationPrepared by Jeff Martin
March 13, 1995

1. Title, line 7.

Strike: "AND"

Insert: ", "

Following: "DATES"

Insert: ", AND A CONTINGENT VOIDNESS PROVISION"

2. Page 8, line 12.

Following: line 11

Insert: **"NEW SECTION. Section 3. Coordination instruction.** If Senate Bill No. 412 is passed and approved, then Senate Bill No. 412 is amended as provided in subsections (1) and (2) of this section and the distribution of revenue must be modified as provided in subsection (3) of this section. If necessary, the code commissioner shall correct all erroneous internal references within Senate Bill No. 412 caused by this section.

(1) The definition section, [section 3], of Senate Bill No. 412 is amended by adding the following definition, in alphabetical order, and renumbering subsequent subsections:

"(19) "Qualifying production" means the first 24 months of production of oil or natural gas from any post-1985 well drilled after March 31, 1995, or from a well that has not produced oil or natural gas during the 5 years immediately preceding the first month of qualifying production. Qualifying production does not include oil production from a horizontally recompleted well."

(2) The section imposing tax rates on natural gas and oil production, [section 4] of Senate Bill No. 412, is amended to read:

"NEW SECTION. Section 4. Production tax rates imposed on oil and natural gas. (1) The production of oil and natural gas is taxed as provided in this section. The tax is distributed as provided in [section 18].

(2) Natural gas is taxed on the gross taxable value of production based on the type of well and type of production according to the following schedule for working interest and nonworking interest owners:

	Working Interest	Nonworking Interest
(a) pre-1985 wells	18.75%	15%
(b) post-1985 wells		
(i) first 12 months of qualifying production	3.35% <u>0.7%</u>	15%
(ii) after <u>next</u> 12 months of qualifying production	15.35% <u>12.7%</u>	15%
(iii) after <u>24 months</u>	<u>15.35%</u>	<u>15%</u>

- (c) stripper natural gas
pre-1985 and post-1985 wells 11.2% 15%

(3) The reduced tax rate ~~rates~~ under ~~subsection~~ subsections (2)(b)(i) and (2)(b)(ii) on ~~natural gas production~~ for the first ~~12~~ 24 months of natural gas production from a post-1985 well begins following the last day of the calendar month immediately preceding the month in which natural gas is placed in a natural gas distribution system, provided that notification has been given to the department.

(4) Oil is taxed on the gross taxable value of production based on the type of well and type of production according to the following schedule for working interest and nonworking interest owners:

	Working Interest	Nonworking Interest
(a) primary recovery production		
(i) pre-1985 wells	14.1%	16.5%
(ii) post-1985 wells		
(A) first 12 months of qualifying production	5.7% <u>0.7%</u>	16.5%
(B) <u>after next 12 months of qualifying production</u>	12.7% <u>7.7%</u>	16.5%
(C) <u>after 24 months</u>	12.7%	<u>16.5%</u>
(b) stripper oil production pre-1985 and post-1985 wells	11%	16.5%
(c) horizontally completed well production		
(i) first 18 months of qualifying production	5.7% <u>0.7%</u>	5.7%
(ii) <u>next 6 months of qualifying production</u>	<u>7.7%</u>	<u>12.7%</u>
(iii) <u>after 18 24 months</u>	12.7%	12.7%
(d) incremental production		
(i) new or expanded secondary recovery production		
(A) pre-1985 well	8.7%	16.2%
(B) post-1985 well	8.7%	10.7%
(ii) new or expanded tertiary production		
(A) pre-1985 well	6%	15.2%
(B) post-1985 well	6%	9.7%
(e) horizontally recompleted well		
(i) first 18 months	5.7%	5.7%
(ii) after 18 months	12.7%	12.7%

(5) (a) The reduced tax rate ~~rates~~ under ~~subsection~~ subsections (4)(a)(ii)(A) and (4)(a)(ii)(B) on ~~oil production~~ for the first ~~12~~ 24 months of oil production from a post-1985 well begins following the last day of the calendar month immediately preceding the month in which oil is pumped or flows, provided that notification has been given to the department.

(b)(i) The reduced tax rate ~~rates~~ under ~~subsection~~ subsections (4)(c)(i) and (4)(c)(ii) on oil production from a horizontally completed well and ~~the reduced tax rate under subsection (4)(e)(i) on oil production from a horizontally recompleted well~~ for the first ~~18~~ 24 months of production begins following the last day of the calendar month immediately preceding the month in which oil is pumped or flows, provided that the well has been certified as a horizontally completed well ~~or as a horizontally recompleted well~~ to the department by the board.

(ii) The reduced tax rate under subsection (4)(e)(i) on oil production from a horizontally recompleted well for the first 18 months of production begins following the last day of the calendar month immediately preceding the month in which oil is pumped or flows, provided that the well has been certified as a horizontally recompleted well to the department by the board.

(c) Incremental production is taxed as provided in subsection (4)(d) if the average price per barrel of oil as reported in the Wall Street Journal for west Texas intermediate crude oil during a calendar quarter is less than \$30 a barrel. If the price of oil is equal to or greater than \$30 a barrel

in a calendar quarter as determined in subsection (5)(d), incremental production is taxed at the rate imposed on primary recovery production under subsection (4)(a)(i) for production occurring in that quarter.

(d) For the purposes of subsection (5)(c), the average price per barrel must be computed by dividing the sum of the daily price for west Texas intermediate crude oil as reported in the Wall Street Journal for the calendar quarter by the number of days on which the price was reported in the quarter."

(3) The department of revenue shall, by rule, change the distribution formulas under [section 18] of Senate Bill No. 412 for distribution of taxes on oil and natural gas production collected under [section 4] of Senate Bill No. 412. In recalculating distribution rates for the revenue raised by Senate Bill No. 412, the department of revenue shall determine the revised distribution rates according to a formula that presumes that the reduction in the tax rates on natural gas production for working interest owners from post-1985 wells and in the tax rates on oil production for working interest owners from post-1985 wells, as provided in subsection (2) of this section that amends [section 4] of Senate Bill No. 412, as follows:

(a) for the first 12 months of qualifying production under [section 4(2)(b) and (4)(a)(ii)], the reduction in tax rates must be borne by the state general fund and not by other state funds;

(b) for the next 12 months of qualifying production under [section 4(2)(b) and (4)(a)(ii)], the reduction in the tax rates must be borne by the state general fund and not by other state funds or by local governments;

(c) for the first 18 months of qualifying production under [section 4(4)(c)], the reduction in the tax rates must be borne by the state general fund and not by other state funds; and

(d) for the next 6 months of qualifying production under [section 4(4)(c)], the reduction in the tax rates must be borne by the state general fund and not by other state funds or by local governments.

NEW SECTION. Section 4. Contingent voidness. In order to maintain a balanced budget, because [this act] reduces revenue, it may not be transmitted to the governor unless a corresponding identified reduction in spending is contained in House Bill No. 2. If a corresponding identified reduction in spending is not contained in House Bill No. 2, [this act] is void."

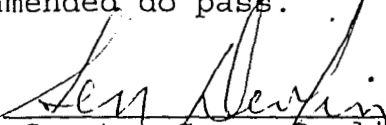
Renumber: subsequent sections

SENATE STANDING COMMITTEE REPORT

Page 1 of 3
March 14, 1995

MR. PRESIDENT:

We, your committee on Taxation having had under consideration SB 338 (first reading copy -- white), respectfully report that SB 338 be amended as follows and as so amended do pass.

Signed: 
Senator Gerry Devlin, Chair

That such amendments read:

1. Page 8, line 12.

Following: line 11

Insert: "NEW SECTION. Section 3. Coordination instruction. If Senate Bill No. 412 is passed and approved, then Senate Bill No. 412 is amended as provided in subsections (1) and (2) of this section and the distribution of revenue must be modified as provided in subsection (3) of this section. If necessary, the code commissioner shall correct all erroneous internal references within Senate Bill No. 412 caused by this section.

(1) The definition section, [section 3], of Senate Bill No. 412 is amended by adding the following definition, in alphabetical order, and renumbering subsequent subsections:

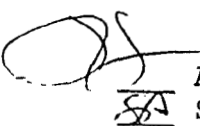
"(19) "Qualifying production" means the first 24 months of production of oil or natural gas from any post-1985 well drilled after March 31, 1995, or from a well that has not produced oil or natural gas during the 5 years immediately preceding the first month of qualifying production. Qualifying production does not include oil production from a horizontally recompleted well."

(2) The section imposing tax rates on natural gas and oil production, [section 4] of Senate Bill No. 412, is amended to read:

"NEW SECTION. Section 4. Production tax rates imposed on oil and natural gas. (1) The production of oil and natural gas is taxed as provided in this section. The tax is distributed as provided in [section 18].

(2) Natural gas is taxed on the gross taxable value of production based on the type of well and type of production according to the following schedule for working interest and nonworking interest owners:

	Working Interest	Nonworking Interest
(a) pre-1985 wells	18.75%	15%
(b) post-1985 wells		
(i) first 12 months of qualifying production	3.35% <u>0.7%</u>	15%
(ii) after <u>next</u> 12 months		


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<u>of qualifying production</u>	15.35% <u>12.7%</u>	15%
<u>(iii) after 24 months</u>	<u>15.35%</u>	<u>15%</u>
(c) stripper natural gas pre-1985 and post-1985 wells	11.2%	15%

(3) The reduced tax rate ~~rates~~ under ~~subsection~~ subsections (2)(b)(i) and (2)(b)(ii) on ~~natural gas production~~ for the first ~~12~~ 24 months of natural gas production from a post-1985 well begins following the last day of the calendar month immediately preceding the month in which natural gas is placed in a natural gas distribution system, provided that notification has been given to the department.

(4) Oil is taxed on the gross taxable value of production based on the type of well and type of production according to the following schedule for working interest and nonworking interest owners:

	Working Interest	Nonworking Interest
(a) primary recovery production		
(i) pre-1985 wells	14.1%	16.5%
(ii) post-1985 wells		
(A) first 12 months of qualifying production	5.7% <u>0.7%</u>	16.5%
(B) <u>after next 12 months of qualifying production</u>	12.7% <u>7.7%</u>	16.5%
<u>(C) after 24 months</u>	12.7%	<u>16.5%</u>
(b) stripper oil production pre-1985 and post-1985 wells	11%	16.5%
(c) horizontally completed well production		
(i) first 18 months of qualifying production	5.7% <u>0.7%</u>	5.7%
(ii) <u>next 6 months of qualifying production</u>	<u>7.7%</u>	<u>12.7%</u>
<u>(iii) after 18 24 months</u>	12.7%	12.7%
(d) incremental production		
(i) new or expanded secondary recovery production		
(A) pre-1985 well	8.7%	16.2%
(B) post-1985 well	8.7%	10.7%
(ii) new or expanded tertiary production		
(A) pre-1985 well	6%	15.2%
(B) post-1985 well	6%	9.7%
(e) horizontally recompleted well		
(i) first 18 months	5.7%	5.7%
(ii) after 18 months	12.7%	12.7%

(5) (a) The reduced tax rate ~~rates~~ under ~~subsection~~ subsections (4)(a)(iii)(A) and (4)(a)(ii)(B) on ~~oil production~~ for the first ~~12~~ 24 months of oil production from a post-1985 well begins following the last day of the calendar month immediately preceding the month in which oil is pumped or flows, provided that notification has been given to the department.

(b)(i) The reduced tax rate ~~rates~~ under ~~subsection~~ subsections (4)(c)(i) and (4)(c)(ii) on oil production from a horizontally completed well ~~and the reduced tax rate under subsection (4)(c)(i) on oil production from a horizontally recompleted well~~ for the first ~~18~~ 24 months of production begins following the last day of the calendar month immediately preceding the month in which oil is

pumped or flows, provided that the well has been certified as a horizontally completed well ~~or as a horizontally recompleted well~~ to the department by the board.

(ii) The reduced tax rate under subsection (4)(e)(i) on oil production from a horizontally recompleted well for the first 18 months of production begins following the last day of the calendar month immediately preceding the month in which oil is pumped or flows, provided that the well has been certified as a horizontally recompleted well to the department by the board.

(c) Incremental production is taxed as provided in subsection (4)(d) if the average price per barrel of oil as reported in the Wall Street Journal for west Texas intermediate crude oil during a calendar quarter is less than \$30 a barrel. If the price of oil is equal to or greater than \$30 a barrel in a calendar quarter as determined in subsection (5)(d), incremental production is taxed at the rate imposed on primary recovery production under subsection (4)(a)(i) for production occurring in that quarter.

(d) For the purposes of subsection (5)(c), the average price per barrel must be computed by dividing the sum of the daily price for west Texas intermediate crude oil as reported in the Wall Street Journal for the calendar quarter by the number of days on which the price was reported in the quarter."

(3) The department of revenue shall, by rule, change the distribution formulas under [section 18] of Senate Bill No. 412 for distribution of taxes on oil and natural gas production collected under [section 4] of Senate Bill No. 412. In recalculating distribution rates for the revenue raised by Senate Bill No. 412, the department of revenue shall determine the revised distribution rates according to a formula that presumes that the reduction in the tax rates on natural gas production for working interest owners from post-1985 wells and in the tax rates on oil production for working interest owners from post-1985 wells, as provided in subsection (2) of this section that amends [section 4] of Senate Bill No. 412, as follows:

(a) for the first 12 months of qualifying production under [section 4(2)(b) and (4)(a)(ii)], the reduction in tax rates must be borne by the state general fund and not by other state funds;

(b) for the next 12 months of qualifying production under [section 4(2)(b) and (4)(a)(ii)], the reduction in the tax rates must be borne by the state general fund and not by other state funds or by local governments;

(c) for the first 18 months of qualifying production under [section 4(4)(c)], the reduction in the tax rates must be borne by the state general fund and not by other state funds; and

(d) for the next 6 months of qualifying production under [section 4(4)(c)], the reduction in the tax rates must be borne by the state general fund and not by other state funds or by local governments."

Renumber: subsequent sections

-END-

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 54th LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN CHASE HIBBARD**, on March 31, 1995, at 8:00 a.m.

ROLL CALL

Members Present:

Rep. Chase Hibbard, Chairman (R)
Rep. Marian W. Hanson, Vice Chairman (Majority) (R)
Rep. Robert R. "Bob" Ream, Vice Chairman (Minority) (D)
Rep. Peggy Arnott (R)
Rep. John C. Bohlinger (R)
Rep. Jim Elliott (D)
Rep. Daniel C. Fuchs (R)
Rep. Hal Harper (D)
Rep. Rick Jore (R)
Rep. Judy Murdock (R)
Rep. Thomas E. Nelson (R)
Rep. Scott J. Orr (R)
Rep. Bob Raney (D)
Rep. John "Sam" Rose (R)
Rep. William M. "Bill" Ryan (D)
Rep. Roger Somerville (R)
Rep. Robert R. Story, Jr. (R)
Rep. Emily Swanson (D)
Rep. Jack Wells (R)
Rep. Kenneth Wennemar (D)

Members Excused: None.

Members Absent: None.

Staff Present: Lee Heiman, Legislative Council
Donna Grace, Committee Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:

Hearing: SB 97
SB 219
SB 338
SB 390

Executive Action: None.

{Tape: 2; Side: A.}

Closing by Sponsor:

SEN. JERGESON said he realized the issue was complicated but the basic premise is simple that, having made the decision to go with the eight-year drivers' license, they would not want to give the public the impression that they were being "gouged" by paying \$32 for a license and, therefore, the fee was being reduced to \$24.

HEARING ON SB 338

Opening Statement by Sponsor:

SEN. GREG JERGESON, Senate District 46, Chinook, opened the hearing by stating that in 1987 the Montana Legislature passed a 24-month holiday from state severance tax for new oil and gas production as an incentive to increase production. That legislation contained a trigger mechanism which said the incentive would sunset when the price of West Texas Crude reached a certain level. During the Gulf War there was spike in the price of oil and the ceiling established in the legislation was met and triggered an end to the incentive holiday. There was no mechanism in the legislation to restore the holiday when the price went back down. It was not anticipated that the price of oil would change because of a crises in world politics that would be temporary in nature. The purpose of SB 338 would be to restore the holiday because it is an to increase production of oil and gas in the State of Montana. The industry is currently in difficulty because commodity prices are low and it is important to maintain and encourage this vital industry. EXHIBIT 1.

Proponents' Testimony:

Pete Madison, Vice President, Entech Oil Division, testified in support of the bill. A copy of his testimony is attached. EXHIBIT 2.

Frank B. Haughton said he was a small independent who first identifies, with the help of a geologist, areas in Montana that warrant the drilling of a well and then acquires the necessary leases that puts money in the pockets of Montana mineral owners, and then raises the capital necessary to drill the wells. He indicated it was his firm belief that Montana has the potential for a very large undiscovered oil and gas reserve -- much larger than what remains in Texas, Oklahoma and some of the more developed areas. Because of the lack of money in Montana, he goes out of state to the oil centers to raise money from sizeable independent oil companies. It requires a tremendous amount of capital to drill a well and he assured the Committee that from his experience, the largest single hurdle to attracting money to Montana is the tax burden that is imposed on operators compared

to that of surrounding states. He said Montana production has declined by 25% in the last five years and he had no doubt that passage of SB 338 would make Montana more competitive and turn that figure around.

Amy Nance Cebull, Director of Human Resources, Nance Petroleum Corp., Billings, strongly urged the Committee to support the passage of SB 338 which would provide an economic stimulus to the oil industry. A copy of her testimony is attached. EXHIBIT 3.

Les Fuglevand, Can-Am Drilling, Chinook, said his company provides drilling services to drilling rigs. He thanked the Committee for passing the horizontal drilling incentive in 1993. His company was a direct beneficiary of that legislation and he would urge the Committee to support SB 338. It makes good sense to extend incentives.

{Tape: 2; Side: B.}

Chip Youlden, JN Exploration and Production, said he was in favor of SB 338. It would help his company and the State of Montana by making Montana more competitive with the other oil and gas producing states and Canadian provinces in attracting investment capital and it would provide economic stimulation to the state, providing higher severance tax and more jobs. Montana has the highest taxes on oil and gas production of all the states. Implementation of this bill would create an incentive in Montana for the drilling of new wells and make the state more competitive. When commodity prices are low, they must look at the economics on each well they drill and passage of SB 338 would stimulate the economy.

Dennis Iverson, Northern Montana Oil and Gas Association, said oil and gas taxes are an extremely important part of the total tax revenue. Because of lower prices and lower production that revenue is declining. Nothing can be done about the price of oil but incentives can be given to encourage production. He said the bill was a good idea and he asked for the Committee's support.

Debbie Miller, Geophysicist, North American Resources, and Past President, Billings Geophysicist Society, spoke in support of SB 338. She said the geophysical industry is of ever increasing importance in exploration and development of oil and gas. In the last ten years major technological advances have been made which allow companies a clear picture for use in evaluation of a drilling site which increases the success rate. However, the technology is very expensive and does not get used unless it is an economically viable project. Therefore, SB 338, which is intended to generate activity in the drilling industry, would also increase seismic exploration in the state, bringing jobs and dollars to the state. She encouraged Committee Members to support the bill.

Gail Abercrombie, Executive Director, Montana Petroleum Association, provided copies of letters received in her office from counties, the Montana Association of Professional Landmen, oil and gas producers and others in support of SB 338. EXHIBIT 4. She also provided an illustration showing how the incentive would promote production. EXHIBIT 5. She asked the Committee to support the bill.

Greg Oblander, Montana Power, said SB 338 would make economics better in the state. He emphasized that the bill does not just provide an incentive to the oil and gas companies; it also provides economic opportunities for all the associated industries and would have a positive effect on the independent land managers, the geologists, dirt contractors, surveyors, drilling contractors, pipeline companies and many others. The legislation would have long-term positive effect on the State of Montana and he asked for the Committee's support.

Gloria Paladichuk, Richland Development Corp., said the horizontal drilling incentive had produced several new wells in her area. They must compete with North Dakota and are aware of the different taxing situation in the two states. The oil and gas industry is important to Richland County and the entire state. She encouraged the Committee to give positive support to the bill.

Jim Halverson, Association of Oil, Gas and Coal Counties, said the most potential for oil and gas production is in the eastern and north central parts of the state where the people are struggling with decreasing property values, fewer jobs and minimal business opportunities. It is difficult to entice new business into those areas because of the remoteness and limited access to transportation. Other than agriculture, the oil and gas industry has been the salvation of eastern Montana in the past and could be again in the future because the reserves are there. This incentive would encourage exploration and production. Because of the potential for jobs and oil and gas revenues, he said his association supports SB 338.

Jim Tutweiler, Montana Chamber of Commerce, said he would not argue the points of economic development, competitiveness or production incentives because they have all been well presented to the Committee. He said the Taxation Committee is of vital importance to the oil and gas industry because the entire industry is a product of international competition and the Committee does have control of some aspects such as the production cost mechanism. He said he hoped the Committee would favorably consider SB 338.

Rex Manuel, Cenex Petroleum Division, went on record in support of SB 338. EXHIBIT 6.

Jim Paladichuk read a statement in support of the legislation from Dennis Haider, Vice President of Operations, Williston Basin Interstate Pipeline Company. EXHIBIT 7.

Bill Vaughey, Havre, stated that he was an independent explorer for oil and gas and had been in Montana since 1968 and he strongly supports SB 338. He presented copies of his written testimony to Committee Members. EXHIBIT 8.

Opponents' Testimony:

None.

{Tape: 3; Side: A.}

Questions From Committee Members and Responses:

REP. ROSE asked what Montana would have to do to have as much development as Alberta has. Mr. Madison replied that they don't need to be as competitive with Alberta as they do with North Dakota, Wyoming and Colorado. Montana is closer to the market than Alberta is and there are three refineries in Billings that will process Montana's crude oil. The fact is that there isn't enough oil in Montana. All oil produced in Montana is processed in Montana. The companies need help in making their products competitive. They put their money where the best economics are. He advised that there are a total of 680 drilling rigs in the United States, 370 are running in Alberta, and only five or six are running in Montana. If that could be increased to what it was, 20 to 30 rigs, the oil industry would be back in Montana.

REP. BOHLINGER asked what the tax burden per barrel of oil in Alberta would be. Mr. Madison said it was very small, less than 1%. However, the province owns all the royalties and they are set at between 25% and 30%. When his company looks at economics, they look at royalties and taxes together and therefore Alberta is about the same as Montana. REP. BOHLINGER asked if Entech had taken advantage of the incentives provided by the special session. Mr. Madison said they had not because they do not have oil prospects in Montana that would lend themselves to horizontal drilling. He said there is no tax incentive for horizontal drilling for gas.

REP. ELLIOTT said that four years ago geologists who worked for the State of Montana had indicated that Montana was a played out field except for the Rocky Mountain Front. He asked if there were new areas that had been discovered. Ms. Miller said she was probably not the expert to discuss the issue, however, new technology has been utilized in finding new reservoirs very successfully in eastern Montana. There are small pools which are highly profitable. She identified other basins and said that Montana is not played out because there are a lot of areas where there has been no drilling.

REP. ELLIOTT said he had been told by oil economists that the greatest incentive for exploration would be a stable oil price. He asked if that was true. **Mr. Haughey** said that when the price goes up, it goes up everywhere, and they are trying to be competitive irrespective of the price of oil. **REP. ELLIOTT** said he understood one of the advantages of an incentive was in raising venture capital. **Mr. Haughey** agreed that it was.

REP. REAM asked he thought this bill would add new categories to the tax simplification bill. **Mr. Hoffman** said that was correct. **REP. REAM** asked what the relative fiscal impact of this bill would be. **Mr. Hoffman** explained that the tax rates. When the fiscal note was prepared, they analyzed what the impact would be for the 24-month holiday because it would amend current law by exempting new production from the severance tax for the first 24 months. The fiscal note is a full reflection of the 24-month holiday on the severance tax. **Mr. Hoffman** said this bill would amend SB 412 and coordination language is included. **REP. REAM** requested the DOR to furnish additional fiscal information.

REP. ARNOTT asked why more new wells were being drilled in North Dakota and Wyoming than there were in Montana. **Mr. Fuglevnd** said it was difficult to compare the number of wells because of the difference in drilling depths. **REP. ARNOTT** said a number of bills dealing with the oil industry had been introduced in the session and she would like to know which one would be the industry's preference. **Mr. Iverson** said the incentives help increase production and the simplification bill is necessary but what he would like would be to see the basic rates adjusted downward. **Ms. Abercrombie** said the only bills still alive were the stripper bill, the simplification bill, and the bill under discussion. She said they were all important.

REP. BOHLINGER asked for comments on the statement that only 5% of the reserves in Montana have been explored. **Mr. Youlden** said the figure had been provided by his exploration manager who has a great deal of experience. He also provided information on a previous question by stating that in 1993, the total number of wildcat wells drilled in Montana was 19, North Dakota had 35, Wyoming had 78 and Colorado had 99. **REP. BOHLINGER** noted that if only 5% of the reserves have been discovered, Montana has a very young field. He asked if the figure was low because of the tax burden. **Mr. Youlden** said the business is driven by the price of oil and natural gas and last year had the lowest price in ten years. Prices drive the economics on reserves. He did not believe it was totally the tax burden.

{Tape: 3; Side: B.}

REP. BOHLINGER asked Ms. Miller to comment on the state of Montana's oil reserves. **Ms. Miller** said there are several publications put out by the U.S.G.S. estimating the amount of reserves remaining and that is probably where the 5% figure came from. She said there are conventional and unconventional

reservoirs. Horizontal drilling is not the normal method and is considered unconventional. Montana is different geologically from the neighboring states and it has a large mountainous area, the overthrust belt, that has a very deep frontal basin and a lot of people feel that the Rocky Mountain Front has a large reserve. There has been some drilling in Montana, but in Canada where the same geological formations exist, it has been estimated that there are three trillion cubic feet of gas. The bill would provide one more step in helping show that the economics are here. There are many kinds of issues that are being juggled by the industry all the time and if one is made a little better through the tax incentive, activity will be increased.

REP. SWANSON asked the representative from Meridian Oil to explain what the 1993 tax incentive had allowed them to do. **Mr. Kaleczyc** said SB 18 extended the local tax holiday to horizontal drilling, not from the state severance tax. SB 18 extended it for an additional six months for a horizontal well. SB 338 addresses state severance tax and not local taxes. The second component of SB 18 for secondary and tertiary recovery meant that if an oil company put new money into an existing field in order to develop the operation, there would be a decrease in the state severance tax. Senator Jergeson's bill will put back into law what would have been there had it not been for the price spike during the Gulf war. The bill will benefit mostly the small producers who are primarily doing vertical wells.

REP. ELLIOTT said Meridian and Shell were the two biggest players in Montana. He asked Mr. Kaleczyc if he was in favor of the bill. **Mr. Kaleczyc** said he was in favor of the bill and he did not testify because Meridian is a member of the Montana Petroleum Association and he did not wish to be redundant. **REP. ELLIOTT** said he thought it was unusual that one of the largest producers in the state did not testify in support of the bill. **REP. ELLIOTT** asked how Mr. Kaleczyc felt about horizontal wells being exempted. **Mr. Kaleczyc** said it would not be a good idea because, if the mix is changed in terms of the tax structure by excluding horizontal wells, the affect for the first 24 months of activity, there would be to create a lesser rate for a vertical well than a horizontal well and for a company like Meridian, looking at the tax structure, they might very well discontinue horizontal drilling in Montana. **REP. ELLIOTT** asked if he saw anything wrong with helping out the "little guy." **Mr. Kaleczyc** said he didn't see anything wrong with helping out all of the industry. Meridian is in support of Sen. Jergenson's bill, and they make business decisions every day, and one of the decisions would be where they would drill wells if they had a choice. Meridian operates in a number of states and if they are going to drill in Montana they will have to decide what kind of wells to drill. If vertical wells will produce a lower operating cost because of tax incentives, it changes the economic consideration and it might be to Meridian's advantage to drill a vertical well which would reverse the tax policy that the Legislature adopted in SB 18.

REP. ELLIOTT asked if it was true that 85% of the production from

a horizontal well was accomplished in the first 18 to 24 months. **Mr. Kaleczyc** said that might be true for some wells but it would not be true across the board. He said that was a rumor that circulated at one time during the consideration of SB 18. **REP. ELLIOTT** said it was not a rumor, there was documented evidence.

REP. ELLIOTT said he had heard testimony that the taxes on oil were lower in Wyoming and North Dakota than they were in Montana. He said it was his experience in speaking with the Commissioners in those states that the states are being "played off against one another by the oil industry." He asked if that was true. **Mr. Hoffman** said he had talked with officials in Wyoming about what was going on in the legislative arena and he had stated that what was going on in Montana was being discussed as part of legislative action in Wyoming. He said he could not speak for North Dakota.

REP. ROSE commented that he understood that 190,000 acres of land was under lease in Sheridan County at \$20 an acre for a total of \$3.8 million which is a large contribution to the economy of that county. He asked if that was correct. **Mr. Houghton** replied that he had been active in Sheridan County and during an 18-month period between mid-1993 and the end of 1994, there was just under 200,000 acres under lease in Sheridan County alone. **Mr. Houghton** pointed out that Daniels County is an unexplored county and, because of information which was the result of seismic technology, a company has now leased over 200,000 acres in that county, half of which is state land. They have made a significant discovery which is 50 miles from existing production in a remote area. Nine wells have been drilled, with seven producers.

REP. ROSE asked if information was available on royalties collected, and rents and bonuses paid on state school trust lands from oil leases. **Mr. Hoffman** replied that he could get that information.

REP. RANEY asked how long it would be before there would be rigs in the field if this bill was passed. **Mr. Iverson** said that the last time an incentive was given, the results were immediate and he would expect that to be the case now. **REP. RANEY** asked if it would be logical to place a sunset on the bill. **Mr. Iverson** said there is a sunset for each individual operator because the tax break is applicable for two years. **REP. RANEY** referred to the state's experience with the tax break given for coal. The tax was cut in half and it did not result in more production or more jobs. He said there should be a way to end the break if it does not work. **Mr. Iverson** said he was sure that there would be some impact from the bill in his part of the country. **REP. RANEY** suggested some alternatives, such as cutting the holiday to 12 months or cutting the tax in half. **Mr. Iverson** suggested that the Committee would want to take a good look at all the spinoffs that would occur before deciding to cut anything. For instance, on the average, one drilling rig operating one year in the state

would produce \$150,000 in salaries and there are many more positive impacts.

{Tape: 4; Side: A.}

REP. ARNOTT asked Mr. Madison if he wished to comment on the bill. **Mr. Madison** replied that his testimony had been misunderstood. He said Montana would be the winner if this bill is passed, not Entech. He said the bill should not be made into a "big guy, little guy" bill. He said his company doesn't need the help because they have more opportunities for their dollars than they do projects and the opportunities don't have to be in the State of Montana, but there are opportunities in Montana and what Montana needs to do is get the companies back, and drilling, in the state and, to do that, they must be competitive. Put a sunset on the bill and the companies will go right back to Alberta or Colorado. He also emphasized that the horizontal and vertical drilling should not be confused because they are totally different. Horizontal drilling is a development tool that is used for extracting more oil, faster, after the exploratory vertical well is producing. He said the problem is getting the dollars back into the state to make Montana a winner.

REP. HANSON asked what would happen if the Legislature does not give the tax incentive. **Mr. Iverson** stated that, historically, the independent companies have done most of the exploration in Montana and, without any help, they would leave the state.

REP. REAM asked what the average life of a well would be. **Mr. Hoffman** said he could not give any information on the horizontal wells because they are a very recent development. Wells drilled in the 30's and 40's continue to produce. What usually happens is the larger companies come in and develop an area and when it is no longer economic for them, they sell to the small independents who continue to operate because their objectives are different.

CHAIRMAN HIBBARD said the title of the bill says there is a 24-month exemption and, yet, the Committee has been talking about inserting a tax rate for the second 12 months. He asked if he was correct that only a certain tax was being exempted and the companies would still have some tax liability. **Mr. Hoffman** said this legislation is predicated on the fact that there is more than one tax -- the net proceeds tax of 7% on wells drilled after 1985, a 5% state severance tax, a .5% RIT tax, and a .2% privilege and license tax which adds up to 12.7% that comes on after all the holidays have ended. Under current law, there is a 12-month holiday from the 7% net proceeds tax and this bill would impose a 24-month holiday from the state severance tax. This is what is causing the confusion between one holiday and the other one. **CHAIRMAN HIBBARD** asked if the simplification bill was passed, whether there would still be a tax burden for the first and second year. **Mr. Hoffman** said that was correct. He said the

chart that was handed out at the hearing on SB 412 did not reflect any of the bills that are in the legislative process.

CHAIRMAN HIBBARD asked why this bill did not have a contingent voidness amendment. **Mr. Hoffman** said his understanding was that the Senate felt these impacts were for activities that had not yet occurred.

Closing by Sponsor:

CHAIRMAN HIBBARD advised that Rep. Devaney had agreed to close the hearing in place of Sen. Jergenson who was involved in Senate floor debate on HB 2.

REP. CHARLES DEVANEY, House District 97, Plentywood, told the Committee he had agreed to close on this bill because he would be carrying the bill on the House floor. He reviewed the impacts the oil industry has on communities in Montana. An incentive can do much more than what is indicated in a fiscal note. He said he hoped the Committee would pass the bill to the House floor for debate.

HOUSE OF REPRESENTATIVES

Taxation

ROLL CALL

DATE March 31, 1995

NAME	PRESENT	ABSENT	EXCUSED
Rep. Chase Hibbard, Chairman	✓		
Rep. Marian Hanson, Vice Chairman, Majority	✓		
Rep. Bob Ream, Vice Chairman, Minority	✓		
Rep. Peggy Arnott	✓		
Rep. John Bohlinger	✓		
Rep. Jim Elliott	✓		
Rep. Daniel Fuchs	✓		
Rep. Hal Harper	✓		
Rep. Rick Jore	✓		
Rep. Judy Rice Murdock	✓		
Rep. Tom Nelson	✓		
Rep. Scott Orr	✓		
Rep. Bob Raney	✓		
Rep. Sam Rose	✓		
Rep. Bill Ryan	✓		✓
Rep. Roger Somerville	✓		
Rep. Robert Story	✓		
Rep. Emily Swanson	✓		
Rep. Jack Wells	✓		
Rep. Ken Wennemar	✓		

EXHIBIT 1
DATE 3-31-95
HB SB 338

Senate Bill 338

During the Special Session held in November of 1993 the Legislature enacted an incentive for the oil industry to drill horizontal wells, also included were some incentives for secondary and tertiary recovery projects. The incentive for horizontal wells drilled after 12/31/93 is an 18 month holiday from the 7% net proceeds tax. Therefore, under current law the production from horizontal wells is taxed at 5.7% for the first 18 months and then they are taxed at 12.7% thereafter.

SB 338 as now written provides a 24 month holiday from the 5% state severance tax for horizontal and vertical wells drilled after 3/31/95. Horizontally drilled wells would be taxed at .7% for the first 18 months of production, 5.7% after 18 months but less than 24 months, and 12.7% after 24 months.

During the hearing in the Senate Taxation Committee no testimony was given that the incentive in SB 338 would be in addition to the incentive granted in November of 1993 for horizontal wells. It is uncertain whether the members of the Committee, or the Senate as a whole realized they were granting additional incentives to horizontal wells.

However, any change in fiscal note would be minimal by excluding horizontal wells from SB 338, because we have limited production data on newly drilled horizontal wells. The fiscal note for the biennium shows a decrease of \$1,264,000, which only includes about \$80,000 for horizontal wells.

TESTIMONY OF R. P. MADISON
BEFORE THE MONTANA LEGISLATURE
ON SENATE BILL 338

My name is Pete Madison. I am Vice President of the Entech Oil Division. I appear in support of Senate Bill 338.

In my testimony here today I want to emphasize two points. First, we've got a fairly significant oil operator staffed by Montana people located right here in Butte and Billings. Second, this Montana oil company invests all its money outside of Montana.

Entech, Inc. is a subsidiary of the Montana Power Company. The Oil Division of Entech is involved in crude oil and natural gas exploration, production, and marketing activities - normally referred to as the "upstream" segment of the oil business. We operate in Alberta, Canada, in the Rocky Mountain states, Kansas, and Oklahoma.

The Entech Oil Division is based in Butte, Montana, where we employ 45 people directly. We have an exploration office in Billings with 10 employees. I was born and raised in Big Sandy and obtained my engineering degree from Montana State at Bozeman. My Montana background is typical of our 55 employees. Virtually all of us are Montana natives who have been educated in our Montana schools, primarily at Montana Tech.

In the past five years we have invested \$208 million in drilling and related oil and gas production projects. The disappointing fact is that of the \$208 million invested in the last five years, only \$1.6 million or 8/10 of 1% was invested in the state of Montana.

In 1995 the Entech Oil Division has a capital budget of approximately \$35 million and again, only a minimal amount will be invested in the state of Montana.

The obvious question is, *"why does this independent oil and gas exploration and production company based in Butte, Montana and made up of Montana natives, educated in Montana schools, invest virtually all its capital in areas other than in Montana, specifically in Alberta, directly to the north and in Wyoming, Colorado, Kansas, and Oklahoma to the south?"*. The answer is that like most independent oil companies we have more projects, investment opportunities, than we do capital. We put

our limited capital dollars in the best projects. To decide which projects are the best we run rigorous economic analyses. Then, all else being equal, we put our money in the projects that give us the greatest rate of return. The projects that are located in Montana are usually penalized by higher production taxes which moves Alberta and Wyoming projects ahead of them. At times, we are able to put incentives that some states or Alberta have in place at the time. Those incentives of course improve the economics and move those projects higher in the ranking. For example, several years ago we had some marginal oil development opportunities in Canada. The oil business in Canada was in the doldrums and to encourage activity, specifically in crude oil, the Alberta government put in place an incentive to encourage the drilling of oil wells. The incentive was a five year royalty holiday for new oil wells. In Alberta you don't have production taxes but you do have 25 to 30% royalty. That compares to Montana where we have roughly 12 1/2% royalty and 12 1/2 to 15% production taxes. So you can see that a five year royalty holiday in Alberta is a tremendous incentive. When we put that incentive in our economics for the Alberta projects, they moved to the top and we invested considerable amounts of our capital resources in Canada that year.

The point is that incentives do work. Incentives are not subsidies. They encourage investments. Incentives to me are a win/win situation. If we can be encouraged to invest drilling dollars in Montana, it's because those projects are the best place to put our drilling dollars. If we hit, the State wins because there is, of course, additional production that will produce royalties and production taxes after the incentives expire. I can testify that when Alberta put in the five-year royalty holiday for new oil wells, the drilling activity increased over night. In fact it became difficult to get a drilling rig because they were all busy. The recent horizontal drilling incentive that the special session authorized is another positive example of what incentives can do.

Lastly, I'd like to say something about oil and gas prices. I know you will hear testimony that says when oil and gas prices are low, incentives don't do any good and there won't be any drilling anyway but when prices come back the drilling dollars will follow regardless of incentives. My response is that if oil prices increase, they will increase in North Dakota, Wyoming, Colorado, and in Alberta too. Montana will be in the same position of having to compete for limited capital dollars with the states around us. It's a competitive game we're in and we need to find some edge that will help Montana compete for its share of the oil activity.

I believe that Senate Bill 338 is a good measure and a positive incentive that should lure some drilling dollars into Montana. The Entech Oil Division and its Montana employees prefer to drill in Montana rather than having to travel and invest in the states all around us. Please support Senate Bill 338.

Testimony - SB 338

Good morning, I am Amy Nance Cebull. I am a corporate director and director of Human Resources for Nance Petroleum Corporation in Billings. Our company is a small, family-owned independent oil and gas exploration and production company operating primarily in the Williston Basin of Eastern Montana and Western North Dakota. We have been in business in Montana since 1969 and employ about 20 people including petroleum engineers, geologists, geophysicists, land people and accounting staff.

We strongly urge this committee to support the passage of SB 338 which will give economic stimulus to the oil and gas business in this state.

Our business is a very high risk business -- it is a business where we are wrong more times than we are right. In deciding where to spend capital expenditure budget, we have to be very effective and cautious, and we have to spend our dollars in the most prudent manner possible. A stimulus such as SB 338 will allow Montana to compete with other states who are vying for the same dollars, and who already provide such incentives.

EXHIBIT 4

EXHIBIT

DATE

3/31/95

SB 338

JOHN C. MC KEON
District Judge

KAY O'BRIEN JOHNSON

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MARVIN A. EDWARDS
CoronerB.W. MC GUIRE
Justice of Peace

BLAINE COUNTY

Chinook, Montana 59523

TO: Chase Hibbard, Chair House Taxation Committee and all House Members

FROM: Blaine County Commissioners

RE: SB 338 Oil & gas new well incentive to establish a
24-month state severance tax holiday for oil & gas
wells drilled after 3/31/95

DATE: March 29, 1995

Please convey our support for SB 338 to the House Taxation Committee. We feel this legislation would increase drilling and production in Montana, which increases tax revenue for the state and county.

There is also additional spin off for all businesses, which would be effected by this increase. We strongly urge the passage of this bill, it can only translate into increased revenue for government and private business.

Keith L Benson Chairman

Curtis C. Moxley Commissioner

Arthur Kleinjan Commissioner

CURTIS C. MOXLEY
CommissionerARTHUR KLEINJAN
CommissionerKEITH BENSON
CommissionerSANDRA L. BOARDMAN
Clerk and Recorder/AssessorSHIRLEY GRUBB
TreasurerPERRY W. MILLER
Justice of Peace

SB 338

**REINSTATEMENT OF 24-MONTH STATE SEVERANCE TAX HOLIDAY
FOR NEW OIL AND GAS PRODUCTION**

ESTIMATED INCREASES IN REVENUES FROM NEW OIL & GAS ACTIVITIES

Drilling contractors anticipate a response in drilling activity of 10 to 25 additional rigs active in Montana per year. Property taxes, depending on the county, range from \$10,000 for a shallow depth rated rig to \$250,000 for a deep rig. Taking a conservative average of \$15,000 per rig in property taxes and using the low end of the estimated response to the incentive, ten additional drilling rigs would bring in **\$150,000 per year** in property taxes.

Payroll per day for a drilling rig is \$2,500. Multiply that times the 10 added rigs and times the average 200 days per year that each rig is active, yields an annual payroll of \$5 million. State income taxes at 5.3% bring in **\$265,000 per year** to the state.

Motel rooms are budgeted at \$250 per day for the rig hands. State accomodations taxes apply and would amount to **\$20,000 per year** for the 200 days per year for the 10 rigs..

Other taxes and royalties accrue to the state from the first production. In 1994, the year following the passage of the horizontal drilling incentive, drilling permits for horizontal wells increased over 100 percent (21 in 1993; 46 in 1994). This is a good measure of the response to an incentive because the price of oil, although low, was static, and thus, a stable factor.

Using a very conservative assumption that increases in response to the reinstatement of the 24-month state severance tax holiday will be just half of the response to the horizontal incentive, a fifty percent increase will be assumed.

Using the production and price figures from the fiscal note and Board of Oil and Gas Conservation drilling permit information, a fifty percent increase in response to the new production incentive would bring to the state **\$428,000 per year** in state royalties, in the state's share of federal royalties and in income taxes on royalties paid to private mineral owners.

The above figures equal **\$863,000 per year**. Not calculated were the increases in income taxes for motel, restaurant and other ancillary services providers, nor were increased motor fuels taxes estimated. Also, not calculated were increased net proceeds taxes to the counties and schools.

With SB 338's incentive in place, any project we have in Montana will be much more attractive for our investment. In our 1995 capital budget of about \$7 million, we are evaluating at least two deep tests in Roosevelt County and others in Western North Dakota each costing about \$1 million. Naturally, we are going to be very careful of where we spend that money. Tax burdens per barrel of oil on our neighboring state of North Dakota are \$.84, while Montana's are \$1.70. Obviously, North Dakota is more attractive to drilling investment than Montana.

There are only 5 rigs running in Montana today, there should be considerably more. In the last ten years, employment in the oil and gas business in Montana has declined 72%, and revenue to state and local governments has declined 51% -- a \$60 million loss. There is no reason why those dollars cannot come back into the economy if this state stimulates business.

Our company has been in Montana a long time, and we intend to stay longer assuming the business climate is conducive to growth. We are not asking for a subsidy or hand-out. We are asking for a stimulus that makes Montana competitive with other states in the Northern Rockies. Hopefully, passage of this bill help will revive a very important and core business in Montana. At least it is a beginning step in the right direction.

Thank you for your consideration and for the opportunity to give you our perspective.



EXHIBIT 6
DATE 3-31-95
HB SB 338

CENEX, Inc.
Exploration & Production Dept.

P. O. Box 80770
Billings, MT 59108-0770

(406)-655-6200
Fax: (406)-655-6250

March 28, 1995

The Honorable Chase Hibbard
Montana House of Representatives (Taxation Committee)
Capitol Station
Helena, MT 59620

RE: SB 338 - New Production Incentive

Dear Mr. Chairman:

Since 1946 CENEX has been a Montana oil producer with a history of exploration efforts. During 1994 we experienced the lowest crude oil price since 1979 and the industry is experiencing the lowest drilling rate in two decades.

SB 338 is designed to stimulate new drilling for new production to counter the downward trend. This effort has proven successful in other areas.

As a Montana operator, we urge your favorable consideration of SB 338.

Thank you.

Sincerely,


J. R. Keating
Vice President

JRK/jlb



WILLISTON BASIN

INTERSTATE PIPELINE COMPANY

A Subsidiary of MDU Resources Group, Inc.

Suite 300

200 North Third Street

Bismarck, ND 58501

(701) 221 1200

E. HIBIT 7

DATE 3-31-95

HB SB 338

March 30, 1995

To: The House Taxation Committee
Montana House of Representatives

RE: SB 338 - NEW PRODUCTION INCENTIVE BILL

Williston Basin Interstate Pipeline Company is a significant producer of natural gas in the State of Montana, primarily from Phillips and Fallon Counties. Our company also has production in the State of North Dakota.

It is no understatement to mention that taxation plays an integral role in the economics of Williston Basin's short and long-range production development planning, particularly involving decisions on where to invest our production dollars. Existing production taxes between the States of North Dakota and Montana are significantly different at the present time. For example, at a wellhead price of \$1.00 per thousand cubic feet for natural gas, the gross tax on production from a new well drilled in Montana would be nearly four times (4X) that of North Dakota's tax (after one year). At a price of \$2.00 per thousand cubic feet, Montana's gross production tax would be nearly eight times (8X) that of North Dakota's tax on the same production, not to mention the ease and simplicity of applying the North Dakota tax.

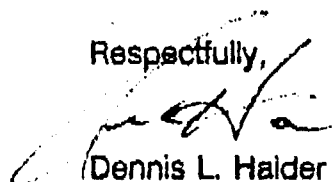
While we are not a producer in the States of Wyoming and South Dakota or the Provinces of Alberta and Saskatchewan, through our business we are familiar with similar taxes and/or royalties disparities to Montana's. As not only a producer, but a transporter of gas product from various third party producers in the State of Montana, the competitive advantage provided to other governmental jurisdiction producers needs to be balanced, and bringing the tax situation into line is one way to do this.

House Taxation Committee
Page 2
March 30, 1995

Therefore, we are in support of Montana Senate Bill 338 with respect to new production incentives and urge your support of its passage. Not only will this provide an incentive for our company to potentially drill more wells in the State of Montana than originally planned (and resulting in providing benefits to the State of Montana that would not exist absent this incentive), but it will also send a positive signal to the natural gas industry, both in state and out of state, that is desperately needed to look at Montana for new production.

Again, we urge your support for SB 338 and thank you for your attention and consideration.

Respectfully,



Dennis L. Halder
Vice President - Operations

law

W. M. VAUGHEY, JR.

P.O. BOX 46

HAVRE, MONTANA 59501-0046

(406) 265-5421

EXHIBIT. 8

DATE 3-31-95

HB SB 338

March 2, 1995

The Honorable Chase Hibbard, Chairman
House Taxation Committee
Montana State House of Representatives
Capitol Station
Helena, MT 59620

RE: In strong support of Senate Bill 338 Oil and Gas New Well Incentive - Establishes a 24-month state severance tax holiday for oil or gas wells drilled after 3/31/95; includes wells not having produced for 5 years.

Dear Representative Hibbard:

I am an independent explorer for oil and gas with offices in Havre since 1968. For a number of years I was primarily a natural gas producer, that production coming from the Tiger Ridge Gas Field area here in Northcentral Montana. The above measure seeks to replace 1985 legislation which was lost, in a sense, on a fluke oil price spike which occurred in 1991.

The main thrust of my testimony in support of reinstating this law is as follows. During the period 1968-1985, I never even considered attempting to attract out-of-state investment dollars to drill wildcat tests in Montana. Our total tax burden on petroleum at the wellhead was then and is now the highest in the United States. Instead I just drilled gas tests with my longtime parnters here in Northcentral Montana.

However, the 1985 bill and a companion measure still on the books which gives a one-year tax holiday on the net proceeds tax for any newly-completed well changed the whole fact situation from my viewpoint. For the first time I began to look at Montana geological prospects. One generated by a group of Golden, Colorado, geologists struck my fancy. It related to oil in the Madison formation in Pondera and Teton counties. Based on a belief in that geology I went to Texas and attracted a number of investors in underwriting a wildcat program to test the Madison theory. As a result, seven blocks of oil and gas leases comprising nearly 20,000 acres were taken in 1989, and in the summer of 1990 five wildcat tests were drilled. Sad to say, the Madison geological theory was a "bust," and all five wildcats were dry. That fact notwithstanding, the whole program caused in excess of \$400,000 to pass through the hands of Montanans.

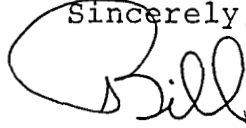
While this is a small story in the setting of petroleum industry operations, many like it can be told--stories made possible by

Page 2
C. Hibbard
March 2, 1995

the predecessor of SB 338 being on the books for the period it was.

Montana's drastically low present exploration levels speak volumes to the need for reinstatement of this measure. I urge your Committee to give SB 338 a DO PASS recommendation.

Sincerely,

A handwritten signature in cursive script, appearing to read "Bill", enclosed within a large, loopy oval shape.

W. M. Vaughey, Jr.

WMV/blp

cc: All House Taxation Committee Members

HOUSE OF REPRESENTATIVES

VISITOR'S REGISTER

Devotion COMMITTEE BILL NO. SB 338
 DATE 3/31/95 SPONSOR(S) Sen. Jorgeson

PLEASE PRINT

PLEASE PRINT

PLEASE PRINT

STAN KALECZYK

MEDIAN DEL

X

NAME AND ADDRESS	REPRESENTING	BILL	OPPOSE	SUPPORT
Frank B. Houghton Jr	Independent	338		✓
Chip Youlden	JN Exploration & Production	338		✓
BILL VAUGHN	INDEP OIL & GAS PRODUCER	338		✓
Jim Tutwiler	MT CHAMBER	SB 338		✓
REX MANUEL	CENEX	SB 338		✓
Brian Cebull	Nance Petroleum	SB 338		✓
Amy Cebull	Nance Petroleum Corp.	SB 338		✓
DEBBIE MULLER	Bitum Geophy. Soc.	SB 338		✓
Les Eglevard	CON-AM Drilling Fluids	SB 338		✓
Jim HALVERSON	ASS - OIL - GAS - COAL CO	SB 338		X
DENNIS IVERSON	NMOGA	SB 338		✓
Jim RAIA dichuk	WBIP	SB 338		✓
Pete Madison	ENTECH MPA	SB 338		✓

Gloria Paladeddu Richland Development 338
 PLEASE LEAVE PREPARED TESTIMONY WITH SECRETARY. WITNESS STATEMENT FORMS
 ARE AVAILABLE IF YOU CARE TO SUBMIT WRITTEN TESTIMONY.

GAIL ABERCROMBIE

MT Petroleum Assn

SB 338

✓

Greg Oblander

MT Power

SB 338

✓

John DeLano

Beers, Res
STAN KALECZYK MER. OIL

X

MINUTES

**MONTANA HOUSE OF REPRESENTATIVES
54th LEGISLATURE - REGULAR SESSION**

COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN CHASE HIBBARD**, on April 6, 1995, at
8:00 A.M.

ROLL CALL

Members Present:

Rep. Chase Hibbard, Chairman (R)
Rep. Marian W. Hanson, Vice Chairman (Majority) (R)
Rep. Robert R. "Bob" Ream, Vice Chairman (Minority) (D)
Rep. Peggy Arnott (R)
Rep. John C. Bohlinger (R)
Rep. Jim Elliott (D)
Rep. Daniel C. Fuchs (R)
Rep. Hal Harper (D)
Rep. Rick Jore (R)
Rep. Judy Murdock (R)
Rep. Thomas E. Nelson (R)
Rep. Scott J. Orr (R)
Rep. Bob Raney (D)
Rep. John "Sam" Rose (R)
Rep. William M. "Bill" Ryan (D)
Rep. Roger Somerville (R)
Rep. Robert R. Story, Jr. (R)
Rep. Emily Swanson (D)
Rep. Jack Wells (R)
Rep. Kenneth Wennemar (D)

Members Excused: None.

Members Absent: None.

Staff Present: Lee Heiman, Legislative Council
Donna Grace, Committee Secretary

Please Note: These are summary minutes. Testimony and
discussion are paraphrased and condensed.

Committee Business Summary:

Hearing: None.
Executive Action: SB 274 - Concurred In as Amended
SB 421 - Concurred In as Amended
SB 39 - Concurred In as Amended
SB 257 - Concurred In as Amended
SB 417 - Concurred In as Amended
SB 358 - Concurred In as Amended
SB 338 - Concurred in as Amended
HB 227 - Attempt to Remove from Table
SB 260 - Attempt to Remove from Table
SB 414 - Attempt to Remove from Table

{Tape: 6; Side: A.}

Motion:

REP. ELLIOTT MOVED TO ADD THE CONTINGENT VOIDNESS CLAUSE TO THE BILL.

Discussion:

Discussion followed relative to the necessity to add the contingent voidness clause. REP. REAM said there was a revised fiscal note stating the bill would cost \$200,000.

Mike Walsh, Governor's Budget Office, said the original fiscal note had revenue estimates that did not include the sunset. The fiscal note was revised after third reading in the Senate and the impact was estimated to be \$200,000.

CHAIRMAN HIBBARD advised that the new fiscal note put the cost of the bill below the threshold established by the Committee.

REP. ELLIOTT WITHDREW HIS MOTION.

EXECUTIVE ACTION ON SB 338

Motion:

REP. ROSE MOVED THAT SB 338 BE CONCURRED IN.

Discussion:

REP. ROSE said that Rep. Feland had requested amendments to the bill which would reduce the two-year tax holiday to 18 months. EXHIBIT 15. Charts showing the fiscal impact with the 18-month exemption were distributed. EXHIBIT 16.

Motion:

REP. ROSE MOVED THE FELAND AMENDMENTS.

Discussion:

CHAIRMAN HIBBARD said that the cost of SB 338 would be reduced by the amendments and, with changes in HB 90, the stripper well bill, the cost of the two bills, as amended, would be the same as the cost of the stripper bill would have been.

REP. REAM asked if SB 338 would add three classes back into SB 412, the oil and gas tax simplification bill. Mr. Hoffman, DOR, said there would be the same number of charts whether it was 18 months or 24 months so there would be no additional effect on SB 412 in terms of the number of classes.

REP. REAM said he would propose amendments which would give a 12-month holiday instead of 18 or 24 which would keep the simplification in place but would change the 5.7% rate for 12 months and put it back to the full rate thereafter. With Rep. Rose's amendment, three more lines would be added to the table. He said he was bothered by adding classes immediately after the Committee had voted for simplification.

REP. ROSE said he would agree.

Mr. Hoffman said that with the revised fiscal note, it would not impact FY 96 at all and it would be reduced by one-half in FY 97. He said Rep. Rose's amendment would reduce the fiscal impact in FY 97 by \$144,000. Rep. Ream's suggestion would reduce it by approximately \$400,000.

REP. REAM said he didn't understand the reason for tying the stripper bill to this bill. He said the important thing was to keep the simplification bill intact even though there would be a relatively small difference when looking at total tax liability.

CHAIRMAN HIBBARD asked if there was any way to stay with Rep. Ream's simplification suggestion if Rep. Rose's amendment is passed. **Mr. Hoffman** said he had not been able to identify a way to do that. He said they would have to add more lines to the tax table.

REP. RANEY said he would vote against the Rose amendment because of what happens in the oil fields. He said the big "bubble" of oil comes in the first 24 months and they end up being strippers after that.

REP. BOHLINGER said 12.7% of nothing is still nothing. This bill would encourage exploration, provide jobs and expand the tax base.

Vote:

On a roll call vote, the motion passed, 16 - 4.

Discussion:

REP. RANEY said he thought the bill should have a sunset on it.

The Committee did not express an interest in placing a sunset on the bill.

Motion:

REP. HARPER MOVED TO ADOPT A CONTINGENT VOIDNESS AMENDMENT. On a voice vote, the motion passed, 17 - 3.

Motion/Vote:

REP. HARPER MOVED THAT SB 338 AS AMENDED BE CONCURRED IN. On a voice vote, the motion passed, 17 - 3.

EXECUTIVE ACTION ON SB 260

REP. BOHLINGER stated that the Committee had acted rather hastily on SB 260 which would have provided for a gambling indemnity trust fund which had a \$400,000 fiscal note attached to it. The money that would have been set aside was money provided by the gamblers representing 1/10 of 1% of the 15% tax on video gaming machines. He said the money would provide help for people who are addicted to gambling and the state has a moral responsibility to deal with it. He asked the Committee to reconsider its action on the bill.

Motion/Vote:

REP. BOHLINGER MOVED TO TAKE SB 260 FROM THE TABLE. On a show of hands, the motion passed, 11 - 9.

Motion/Vote:

REP. BOHLINGER MOVED THAT SB 260 BE CONCURRED IN.

Discussion:

REP. WELLS asked if the state had an alcohol indemnity trust fund. REP. HARPER replied that the state, as well as the federal government, funds extensive programs dealing with alcoholism through the Department of Corrections. REP. BOHLINGER commented that the alcohol and drug treatment center at Galen is state supported.

REP. SOMERVILLE proposed a conceptual amendment to the bill to finance the program from the gaming tax so that the local governments would not be affected.

Motion:

REP. SOMERVILLE MOVED THE CONCEPTUAL AMENDMENT.

{Tape: 6; Side: B.}

Discussion:

REP. REAM pointed out that it would be an impact on each local government that receives the income from the gambling tax and he did not think it would be worth amending for that small amount. The revenue has been growing at a more rapid rate than other sources of revenue and they have been reaping a windfall.

HOUSE OF REPRESENTATIVES ,'

Taxation

ROLL CALL

DATE April 6, 1995

NAME	PRESENT	ABSENT	EXCUSED
Rep. Chase Hibbard, Chairman	✓		
Rep. Marian Hanson, Vice Chairman, Majority	✓		
Rep. Bob Ream, Vice Chairman, Minority	✓		
Rep. Peggy Arnott	✓		
Rep. John Bohlinger	✓		
Rep. Jim Elliott	✓		
Rep. Daniel Fuchs	✓		
Rep. Hal Harper	✓		
Rep. Rick Jore	✓		
Rep. Judy Rice Murdock	✓		
Rep. Tom Nelson	✓		
Rep. Scott Orr	✓		
Rep. Bob Raney	✓		
Rep. Sam Rose	✓		
Rep. Bill Ryan	✓		
Rep. Roger Somerville	✓		
Rep. Robert Story	✓		
Rep. Emily Swanson	✓		
Rep. Jack Wells	✓		
Rep. Ken Wennemar	✓		

HOUSE OF REPRESENTATIVES

ROLL CALL VOTE

DATE 4/6/95 BILL NO. SB 338 NUMBER

MOTION: Rose Amend
24 Y 18 N

NAME	YES	NO
Vice Chairman Marian Hanson	✓	
Vice Chairman Bob Ream		✓
Rep. Peggy Arnott	✓	
Rep. John Bohlinger	✓	
Rep. Jim Elliott	✓ thru	
Rep. Daniel Fuchs	✓	
Rep. Hal Harper		✓
Rep. Rick Jore	✓	
Rep. Judy Rice Murdock	✓	
Rep. Tom Nelson	✓	
Rep. Scott Orr	✓	
Rep. Bob Raney		✓
Rep. Sam Rose	✓	
Rep. Bill Ryan		✓
Rep. Roger Somerville	✓	
Rep. Robert Story	✓	
Rep. Emily Swanson	✓	
Rep. Jack Wells	✓	
Rep. Ken Wennemar	✓	
Chairman Chase Hibbard	✓	

16 4

Amendments to Senate Bill No. 338
Third Reading Copy

Requested by Representative Feland
For the Committee on Taxation

Prepared by Greg Petesch
April 6, 1995

1. Title, line 5.
Strike: "24"
Insert: "18"
2. Page 7, line 26.
Strike: "24"
Insert: "18"
3. Page 8, line 21.
Strike: "24"
Insert: "18"
4. Page 9, line 9.
Strike: "12"
Insert: "6"
5. Page 9, line 11.
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6. Page 9, line 15.
Strike: "24"
Insert: "18"
7. Page 9, line 27.
Strike: "12"
Insert: "6"
8. Page 9, line 29.
Strike: "24"
Insert: "18"
9. Page 10, lines 5 and 6.
Strike: subsection (ii) in its entirety
Renumber: subsequent subsection
10. Page 10, line 7.
Strike: "24"
Insert: "18"
11. Page 10, line 19.
Strike: "24"
Insert: "18"
12. Page 10, line 22.
Strike: "subsections"

Insert: "subsection"
Strike: "and (4)(c)(ii)"

13. Page 10, line 24.
Strike: "24"
Insert: "18"

14. Page 11, line 22.
Strike: "12"
Insert: "6"

15. Page 11, line 24.
Following: "i."
Insert: "and"

16. Page 11, lines 27 through 30.
Following: "FUNDS" on line 27
Strike: remainder of line 27 through "GOVERNMENTS" on line 30

Impact of SB-338 with 18th Month Exemption

<u>Revenue Source</u>	<u>FY95</u>	<u>FY96</u>	<u>FY97</u>
Oil Severance Tax	(15,000)	(294,000)	(588,000)
<u>Gas Severance Tax</u>	<u>(5,000)</u>	<u>(97,000)</u>	<u>(141,000)</u>
Total	(20,000)	(391,000)	(729,000)

Prepared by the Office of Research and Information, Montana Department of Revenue

EXHIBIT 16
DATE 4/6/95
SB 338

EXHIBIT 10
4-6-95
SB 338

Natural Gas Tax Impacts - FY1996

Current Law vs. Proposed Law (SB-412 with HB-418 and SB-338)

Working Interest "Old"

	Gross Value	Current Rate	Proposed Rate	Current Liability	Proposed Liability	Difference
Current Production Type (Regular) LGST Working Interest	18,300,261	18.60%	18.85%	\$3,403,849	\$3,449,599	\$45,751

Working Interest "New"

	Gross Value	Current Rate	Proposed Rate	Current Liability	Proposed Liability	Difference
Current Production Type (Regular)						
Net Proceeds Working Interest	17,905,679	15.35%	15.45%	2,748,522	2,766,427	\$17,906
Net Proceeds (12-mo. Exempt) Working Interest	4,468,795	3.35%	0.80%	149,705	35,750	(\$113,954)
Net Proceeds (24-mo. Exempt) Working Interest	0	15.35%	12.80%	0	0	\$0
Total	\$22,374,473	12.95%	12.52%	\$2,898,226	\$2,802,178	(\$96,049)

STRIPPER

	Gross Value	Current Rate	Proposed Rate	Current Liability	Proposed Liability	Difference
Current Production Type						
LGST-Working Interest (St. Sev. Taxable)	3,469,301	12.29%	11.30%	\$426,377	\$392,031	(\$34,346)
LGST-Working Interest (St. Sev. Exempt)	23,634,613	10.70%	11.30%	2,528,904	2,670,711	141,808
Net Proceeds-Working Interest (St Sev Taxable)	1,465,412	14.29%	11.30%	209,407	165,592	(43,816)
Net Proceeds-Working Interest (St Sev Exempt)	9,983,119	12.70%	11.30%	1,267,856	1,128,092	(139,764)
Net Proceeds (12-mo. Exempt) W.I. (St. Sev. Taxable)	501,218	2.29%	0.80%	11,478	4,010	(7,468)
Net Proceeds (24-mo. Exempt) W.I. (St. Sev. Taxable)	0	14.29%	12.80%	0	0	0
Net Proceeds (12-mo. Exempt) W.I. (St. Sev. Exempt)	3,414,550	0.70%	0.80%	23,902	27,316	3,415
Net Proceeds (24-mo. Exempt) W.I. (St. Sev. Exempt)	0	12.70%	12.80%	0	0	0
Total	\$42,468,212	10.52%	10.33%	\$4,467,924	\$4,387,752	(\$80,171)

ROYALTY

	Gross Value	Current Rate	Proposed Rate	Current Liability	Proposed Liability	Difference
Current Production Type						
LGST- Non-Working Interest Regular	2,849,347	18.60%	15.10%	\$529,979	\$430,251	(\$99,728)
LGST-NWI Stripper (St. Sev. Taxable)	332,733	17.54%	15.10%	58,361	50,243	(8,119)
LGST-NWI Stripper (St. Sev. Exempt)	2,266,745	15.95%	15.10%	361,546	342,278	(19,267)
Net Proceeds-NWI Regular	3,524,630	15.35%	15.10%	541,031	532,219	(8,812)
Net Proceeds-NWI Stripper (St. Sev. Taxable)	172,437	14.29%	15.10%	24,641	26,038	1,397
Net Proceeds-NWI Stripper (St. Sev. Exempt)	1,174,725	12.70%	15.10%	149,190	177,383	28,193
Exempt NP - NWI Regular	450,963	3.35%	15.10%	15,107	68,095	52,988
12-mo. Exempt NP- NWI Stripper (St. Sev. Taxable)	66,413	2.29%	15.10%	1,521	10,028	8,507
24-mo. Exempt NP- NWI Stripper (St. Sev. Taxable)	0	14.29%	15.10%	0	0	0
12-mo. Exempt NP- NWI Stripper (St. Sev. Exempt)	452,437	0.70%	15.10%	3,167	68,318	65,151
24-mo. Exempt NP- NWI Stripper (St. Sev. Exempt)	0	12.70%	15.10%	0	0	0
Total	\$11,290,429	14.92%	15.10%	\$1,684,543	\$1,704,854	20,311
Grand Total	\$94,433,376	13.19%	13.07%	\$12,454,542	\$12,344,384	(\$110,158)

4/6/95
SB 338

Oil Production Tax Impacts - FY1996

Current Law vs. Proposed Law (SB-412 with HB-090, HB-412, HB-413)

Working Interest "OLD"

Current Production Type	Current Gross Value	Current Rate	Proposed Rate	Current Liability	Proposed Liability	Difference
LGST-Working Interest	115,459,371	14.10%	14.20%	\$16,279,771	\$16,395,231	\$115,459

Working Interest "NEW"

Current Production Type	Gross Value	Current Rate	Proposed Rate	Current Liability	Proposed Liability	Difference
Net Proceeds-Working Interest	47,660,652	12.70%	12.80%	\$6,052,903	\$6,100,563	\$47,661
Net Proceeds (12 Mo. Exempt) W.I.	6,038,448	5.70%	0.80%	344,192	48,308	(295,884)
Net Proceeds (24 mo. Exempt) W.I.	0	12.70%	5.80%	\$0	\$0	\$0
Total Production and Effective Tax Rates	\$53,699,100	11.91%	11.45%	\$6,397,094	\$6,148,871	(\$248,223)

STRIPPER

Current Production Type	Gross Value	Current Rate	Proposed Rate	Current Liability	Proposed Liability*	Difference
LGST-Working Interest	20,343,933	10.70%	11.10%	\$2,176,801	\$1,468,817	(\$707,984)
Net Proceeds Working Interest	1,769,530	12.70%	11.10%	\$224,730	\$127,778	(\$96,952)
Net Proceeds (12 Mo. Exempt) W.I. Stripper	989,755	5.70%	0.80%	\$56,416	\$7,918	(\$48,498)
Net Proceeds (24 Mo. Exempt) W.I. Stripper	0	12.70%	5.80%	\$0	\$0	\$0
Total Production and Effective Tax Rates	\$23,103,219	10.64%	6.94%	\$2,457,947	\$1,604,512	(\$853,435)

ROYALTY

Current Production Type	Gross Value	Current Rate	Proposed Rate	Current Liability	Proposed Liability	Difference
LGST NWI	17,026,695	18.20%	17.20%	\$3,098,859	\$2,928,592	(\$170,267)
Net Proceeds NWI	7,475,818	12.70%	15.10%	\$949,429	\$1,128,849	\$179,420
Net Proceeds (Exempt) NWI	1,063,212	5.70%	15.10%	\$60,603	\$160,545	\$99,942
Total Production and Effective Tax Rates	\$25,565,725	16.07%	16.50%	\$4,108,891	\$4,217,985	\$109,095

All current law horizontal and enhanced recovery tax incentives are not included.

Grand Total	217,827,415	13.43%	13.02%	29,243,703	28,366,599	(\$877,104)
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* Stripper production also receives a 3-barrel per day exemption from a portion of the tax under HB-090.



HOUSE STANDING COMMITTEE REPORT

April 6, 1995

Page 1 of 3

Mr. Speaker: We, the committee on Taxation report that Senate Bill 338 (third reading copy -- blue) be concurred in as amended.

Signed: 
Chase Hibbard, Chair

And, that such amendments read:

Carried by: Rep. Devaney

1. Title, line 5.

Strike: "24"

Insert: "18"

2. Title, line 8.

Following: "DATE"

Insert: ", "

Strike: "AND"

Following: "DATES"

Insert: ", AND A CONTINGENT VOIDNESS PROVISION"

3. Page 7, line 26.

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Insert: "18"

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Insert: "18"

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Insert: "6"

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Insert: "18"

Committee Vote:

Yes 17, No 3.

791500SC.Hbk

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Insert: "and"

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Following: "FUNDS" on line 27

Strike: remainder of line 27 through "GOVERNMENTS" on line 30

18. Page 12, line 8.

Insert: "NEW SECTION. Section 6. Contingent voidness. In order

to maintain a balanced budget, because [this act] reduces revenue, it may not be transmitted to the governor unless a corresponding identified reduction in spending is contained in House Bill No. 2. If a corresponding identified reduction in spending is not contained in House Bill No. 2, [this act] is void. "

-END-

Conference Committee
on SB 338
Report No. 1, April 12, 1995

Page 1 of 1

Mr. President and Mr. Speaker:

We, your Conference Committee on SB 338, met and considered:

House Committee on Taxation amendments to the third reading
copy, dated April 6, 1995.

We recommend that the amendments considered above be rejected.

And that this Conference Committee report be adopted.

For the Senate:

Gage

Chair

Tveit

Jergeson

Amd. Coord.

SA
Sec. of Senate

For the House:

H. S. Hanson

Chair

Fuchs

J. Johnson

ADOPT
REJECT

SB 338
CCR #1
840948CC.SPV